

Eesti Pank
Bank of Estonia



Estonian Preliminary Balance of Payments for the Year 2006

2007

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SHORT OVERVIEW

- **The current account deficit of the Estonian balance of payments accounted for 14.8% of GDP in 2006** (see Table 1 and Figure 1)¹. **This reflects Estonia's rapid economic expansion and an increase in investments and private consumption. In absolute value, the deficit amounted to 30.4 billion kroons.**
- **The balance of payments reserve assets increased by 7.5 billion kroons.**
- **Foreign capital inflow mainly occurred through other investment capital.**
- **The current account deficit was primarily boosted by the increase in the foreign trade deficit and to a lesser extent by the decrease in the surplus on current transfers.**
- **The surplus on the capital transfers grew by nearly three times and amounted to 5.1 billion kroons.**

The largest component of the **CURRENT ACCOUNT** deficit, the **goods account** deficit, grew by approximately 50% year-on-year, amounting to 33.9 billion kroons (17% of GDP). The deficit on the goods account was mainly boosted by transport vehicles – the imports of motor cars alone exceeded the exports by 7.2 billion kroons. Chemical products and clothing, footwear and headgear as well as oil products also contributed to the deficit growth. The deficit in food products, however, decreased. Two groups of goods posted a surplus: timber and timber products, and furniture and other industrial goods.

The exports of goods continued rapid growth also in 2006, having increased by 22% year-on-year. The main driving force behind growth was the exports of mineral products which grew by 2.6 times compared to 2005. Exports to non-EU countries were largely comprised of motor fuel previously imported for processing from Russia and Belarus. The major export groups included machinery and equipment, oil products and timber and timber products. The 27% growth of goods imports mainly arose from the imports of oil products, which increased by two times, but also from the imports of transport vehicles, which grew by a half. Machinery and equipment formed the largest group also in goods imports, followed by oil products, transport vehicles and chemical products.

Estonia's main trading partner was the European Union, whose share accounted for 65% of the exports and 73% of the imports of goods. The share of EU countries in trade decreased year-on-year: by 12 percentage points in exports and by 3 percentage points in imports. The decline in EU's share largely stemmed from the robust growth in the volume of oil products trade between Estonia and third countries. The absolute volume of trade with EU countries, however, increased. Compared to 2005, the share of the CIS members (Russia in particular) has grown both in exports as well as imports. Finland, Sweden, Latvia, Russia and the United States were the largest export partners, and Finland, Russia, Germany, Sweden and Lithuania the major import partners.

The surplus on the **services account** was 12.8 billion kroons, remaining close to the level of 2005. Year-on-year, the exports of services grew by 9% and the imports by 12%. The surplus on transport services – the largest type of services – increased as the exports of transport services outpaced the imports, particularly as regards sea and road transport. At the same time, the surplus on travel services – the second largest type

¹ The current account deficit without reinvested earnings, which include no actual movement of funds, constituted 10.4% of GDP.

Table 1. Estonia's balance of payments (EEK m)

	2000	2001	2002	2003	2004	2005	2006
Current account	-5178.1	-5,643.6	-12,908.0	-15,415.6	-18,351.6	-18,138.4	-30,359.7
Goods and services	-3,167.6	-2,247.6	-8,564.6	-10,199.6	-11,918.7	-10,667.8	-21,132.1
Goods*	-13,371.4	-13,542.4	-18,455.3	-21,666.7	-25,499.0	-23,295.8	-33,940.5
credit (f.o.b.)	56,118.1	58,798.5	57,948.7	63,443.7	75,199.5	98,148.2	119,929.6
debit (f.o.b.)	-69,489.5	-72,340.9	-76,404.0	-85,110.4	-100,698.5	-121,444.0	-153,870.1
Services	10,203.8	11,294.8	9,890.7	11,467.1	13,580.3	12,628.1	12,808.4
credit	25,263.4	28,135.4	28,164.3	30,674.0	35,666.4	39,836.2	43,359.3
debit	-15,059.6	-16,840.6	-18,273.6	-19,206.9	-22,086.1	-27,208.2	-30,550.9
Income	-3,458.9	-4,898.6	-5,391.1	-7,375.2	-7,950.9	-8,729.3	-9,362.5
credit	2,032.5	3,022.2	3,371.3	3,449.5	5,484.4	8,463.0	12,146.6
debit	-5,491.4	-7,920.8	-8,762.4	-10,824.8	-13,435.3	-17,192.3	-21,509.1
Transfers	1,448.4	1,502.6	1,047.7	2,159.2	1,518.0	1,258.7	134.9
credit	1,944.2	2,016.4	2,065.6	3,670.7	5,276.7	6,267.4	5,905.5
debit	-495.8	-513.8	-1,017.9	-1,511.5	-3,758.7	-5,008.7	-5,770.5
Capital and financial account (reserve assets excluded)	7,433.8	5,026.3	13,055.3	18,260.3	21,532.8	23,235.2	38,854.6
Capital account	439.1	253.2	636.4	685.2	1,145.3	1,767.5	5,120.8
Financial account	6,994.7	4,773.1	12,418.9	17,575.1	20,387.5	21,467.6	33,733.8
Direct investment	5,601.4	5,901.3	2,611.8	10,716.0	8,746.9	29,019.2	7,185.9
Abroad	-1,043.1	-3,528.3	-2,188.4	-2,149.2	-3,388.6	-7,727.3	-12,875.8
In Estonia	6,644.5	9,429.6	4,800.2	12,865.3	12,135.5	36,746.4	20,061.7
Portfolio investment	1,417.5	-665.0	2,442.4	2,431.6	9,102.6	-27,412.6	-15,313.2
Assets	153.1	-2,100.2	-3,182.9	-5,351.6	-4,775.7	-10,818.4	-15,437.2
Equity securities	53.3	236.5	9.1	-1,028.9	-2,893.5	-4,848.9	-4,718.1
Debt securities	99.8	-2,336.7	-3,192.0	-4,322.7	-1,882.2	-5,969.5	-10,719.1
Liabilities	1,264.4	1,435.2	5,625.3	7,783.2	13,878.3	-16,594.2	124.0
Equity securities	-538.8	568.4	912.2	1,526.9	2,205.3	-16,179.6	5,123.2
Debt securities	1,803.2	866.8	4,713.1	6,256.2	11,673.0	-414.6	-4,999.2
Financial derivatives	17.5	-34.7	-63.7	-19.3	-8.3	-97.7	86.0
Assets	-77.8	-0.3	-43.2	-139.2	-35.1	13.5	-172.0
Liabilities	95.3	-34.4	-20.5	120.0	26.8	-111.2	258.0
Other investment	-41.7	-428.5	7,428.4	4,446.8	2,546.4	19,958.8	41,775.1
Assets	-2,638.3	-3,716.7	695.1	-2,284.6	-11,168.8	-10,706.9	1,292.5
Long-term	-1,108.7	-322.7	-1,083.0	-565.7	-6,052.6	5,432.1	-3,261.5
Short-term	-1,529.6	-3,394.0	1,778.1	-1,718.9	-5,116.1	-16,139.0	4,554.0
Liabilities	2,596.6	3,288.2	6,733.3	6,731.4	13,715.1	30,665.7	40,482.6
Long-term	-549.9	1,814.4	1,829.0	4,309.1	3,740.5	16,085.6	17,887.0
Short-term	3,146.5	1,473.8	4,904.3	2,422.3	9,974.7	14,580.1	22,595.6
Errors and omissions	14.8	-112.9	779.5	-532.7	244.2	-212.8	-971.0
Overall balance	2,270.5	-730.2	926.8	2,312.1	3,425.4	4,883.9	7,523.9
Reserve assets	-2,270.5	730.2	-926.8	-2,312.1	-3,425.4	-4,883.9	-7,523.9

* Due to Estonia's accession to the EU on 1 May 2004 the accounting system of the movement of goods between Estonia and other Member States changed considerably, which is why pre-accession and post-accession time-series of foreign trade statistics are not directly comparable.

of services – decreased. This was caused by the declining number of Finnish tourists visiting Estonia on one hand, and by the increase in residents' travel expenses abroad on the other hand. The surplus on the third largest type of services, namely other business services, remained unchanged. The surplus on computer and information services grew as well, whereas the small surplus on construction services turned into a deficit. No significant changes occurred in the structure of the services account. The total share of transport, travel and other business services in the services exports stood at nearly 90% and at 84% in the imports.

The share of the EU in the exports of services was 72% and 74% in the imports. Estonia had the biggest surplus with Finland (8.2 billion kroons) and the biggest deficit with Germany (0.9 billion kroons).

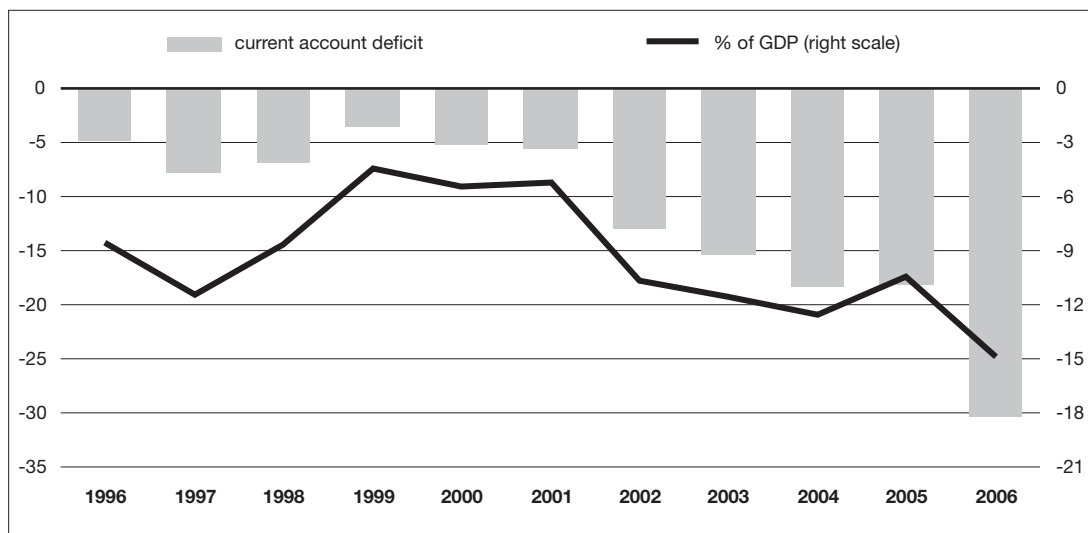


Figure 1. Current account deficit (EEK bn) and its ratio to GDP (%)

Total exports of goods and services, which are the direct components of GDP, grew slower than imports. As a result, the deficit on the goods and services account doubled year-on-year and constituted 10.3% of GDP (6.2% in 2005).

The **income account** deficit increased slightly, amounting to 9.4 billion kroons. The income earned by Estonian investors abroad grew by nearly a half and the income earned by non-residents in Estonia by a fourth, reaching 12.1 and 21.5 billion kroons, respectively. Similarly to 2005, labour income comprised 40% of the income earned by residents abroad, the rest being investment income. Nearly 60% of the latter was reinvested earnings, whereas their share increased considerably year-on-year. The majority (96%) of non-residents income earned in Estonia, on the other hand, was investment income, the rest being labour income. Non-residents' investment income was mostly comprised of direct investment in Estonia, with approximately a half of it being reinvested earnings. Excluding from the income account reinvested earnings, which involve no actual movement of funds, the income account deficit was merely 0.2 billion kroons.

The income earned by Estonian residents abroad as well as non-residents' labour income earned in Estonia increased by a half and amounted to 4.9 and 0.9 billion kroons, respectively. Residents preferred to work in Finland, the United Kingdom, Ireland and Sweden, whereas mostly Finnish, Swedish, Ukrainian, Polish and Russian residents came to work in Estonia.

Approximately 90% of residents' investment income came from the European Union. Residents received investment income predominantly from Latvia, Lithuania, Cyprus and Germany. Over a half (55%) of residents' investment income belonged to the investors in financial intermediation. The share of the investors in transport, storage and communications as well as real estate, renting and business activities was smaller. The majority (90%) of non-residents who earned income on investment in Estonia were mostly from the EU, particularly from Sweden, Finland and the United Kingdom. Much of their investment income came from financial intermediation (37%) and also from wholesale and retail trade, real estate, renting and business activities, and manufacturing.

The total surplus on the **current transfers and capital account** increased by 74% year-on-year, amounting to 5.2 billion kroons. The current account surplus accounted for only 0.1 billion kroons of that. The almost ten-fold decrease in the current account surplus resulted from the decline in the volume of transfers received by the general government and from the rise in the volume of payments made by other sectors. The surplus on the capital account grew by three times year-on-year. In 2005, the majority of the capital account surplus was comprised of transfers received by the general government, whereas in 2006 the surplus was enhanced by the twofold increase in capital transfers as well as by the sale of intangible assets in the amount of 2.3 billion kroons.

The surplus on the **FINANCIAL ACCOUNT** increased by more than a half year-on-year, reaching a record 33.7 billion kroons. Capital inflow occurred mainly through other investment and to some extent also through direct investment, while portfolio investment witnessed net outflow.

Direct investment inflow was 7.2 billion kroons bigger than outflow. Foreign direct investment in Estonia increased by 20.1 billion kroons, thus remaining significantly below the 2005 level (when the investment volume was boosted by the takeover of Hansapank) yet considerably exceeding the levels seen in previous years. Estonian investments abroad reached record levels too, amounting to 12.9 billion kroons.

Two thirds of direct investment in Estonia included reinvested earnings, 12% accounted for equity capital and the rest was other investment capital. Practically all direct investment in Estonia made in 2006 originated from EU countries, with about half coming from Sweden and 30% from Finland. 61% of direct investment was made in financial intermediation, a fifth in manufacturing and some also in transport, storage and communications.

Equity capital investment accounted for 45%, reinvested earnings for a third and other direct investment capital for nearly a fourth of residents' direct investment abroad. Year-on-year, the share of equity capital fell and that of the other two components rose. 88% of residents' direct investment went to EU countries, mainly to Latvia (37%), Lithuania (27%) and Finland (16%). The most active foreign direct investors were those of financial intermediation (39%), real estate, renting and business activities (34%), and wholesale and retail trade.

The net outflow of **portfolio investment** amounted to 15.3 billion kroons. Assets increased nearly as much, with equity security liabilities growing by 4.7 billion and debt security liabilities by 10.7 billion kroons. The growth of equity securities relied on enterprises in other sectors, whereas the general government and other sectors stood behind the growth of debt securities. The volume of portfolio investment liabilities remained close to the previous year's level, since the growth of equity security liabilities was almost as big as the decrease in debt security liabilities. Enterprises in other sectors stood behind the growth of equity security liabilities and credit institutions were responsible for the decline in debt security liabilities.

The net inflow of **other investment** increased by two times year-on-year, reaching a record 41.8 billion kroons. Assets decreased by 1.3 billion kroons, whereas liabilities increased by 40.5 billion kroons, with loan liabilities forming 18.5 billion and currency and deposit liabilities 21 billion kroons of that. The growth of loan liabilities was facilitated primarily by enterprises in other sectors and that of currency and deposits by credit institutions.

CURRENT ACCOUNT

Estonia's fast economic growth along with high consumption and investment needs led to a slight deterioration in the external balance – the current account deficit of the balance of payments accounted for 14.8% of GDP in 2006. The external balance was mainly affected by the increase in the foreign trade deficit. The deficit on the goods and services account constituted 10.3% of GDP, growing by approximately 4 percentage points year-on-year. The current account deficit without reinvested earnings, which include no actual movement of funds, constituted 10.4% of GDP.

The EU Member States accounted for 68% of the credit turnover (76% in 2005) and 76% of the debit turnover (78%). The five most important partners in Estonia's credit turnover in 2006 were Finland, Sweden, Latvia, Russia and the United States (totalling 54% of the credit turnover). More or less the same countries were also the major partners in terms of debit turnover, although in different order: Finland, Russia, Germany, Sweden and Lithuania (totalling 59% of the debit turnover). Estonia's current account deficit was the biggest with Germany and Russia, whereas the highest surplus was registered with the United States and Gibraltar (in 2005 with Finland and Latvia; see Table 2).

Goods

The goods account deficit of the balance of payments increased by 10 billion kroons year-on-year, reaching 34 billion kroons (see Table 3). The imports of goods grew by 27% year-on-year, amounting to 154 billion kroons. The growth rate of goods exports was lower than that of imports and stood at 22%. The goods exports amounted to 120 billion kroons. The share of goods in the goods and services account has been increasing every year. In 2006, the exports of goods accounted for 73% and the imports of goods for 83% of the exports and imports of goods and services.

According to the preliminary **foreign trade statistics**², goods exports totalled 119 billion and imports in c.i.f. prices 161 billion kroons, having grown 23% and 26%, respectively, year-on-year (see Figure 3). As the volume and growth rate of imports outpaced those of exports, the foreign trade deficit increased by 11 billion kroons and reached 42 billion kroons.

The **exports of goods** increased fast across almost all groups of goods, only the exports of textile products decreased by 3% (see Table 4). The main driving force behind growth was the exports of mineral products which grew by 2.6 times compared to 2005. 91% of the exports of mineral products comprised motor fuel. Nearly 80% of that was imported for processing from Russia and Belarus and then re-exported to the United States, Gibraltar and Togo. In addition, fuel imported from Lithuania was re-exported to the States. The exports of electricity decreased by 40%; most of the exports went to Latvia. The exports of another large group of goods – machinery and equipment – grew by only 4% year-on-year. The exports of mobile phones and their parts decreased by 9% year-on-year, accounting for 48% of the exports of machinery

² The following analysis does not include the adjustments made to the goods account (repair of capital goods, provisions purchased from abroad, etc) made by the Balance of Payments and Economic Statistics Department of Eesti Pank. Imports are in c.i.f. prices and analysed by the trading country. As of the moment of accession, the terms "exports" and "imports" are only applicable in reference to trading with third countries, while the Intrastat reporting system uses the terms "dispatch of goods" and "arrival of goods". Since the following analysis covers both intra-Community and non-Community trade, the terms "exports" and "imports" have still been used for the sake of simplicity and clarity.

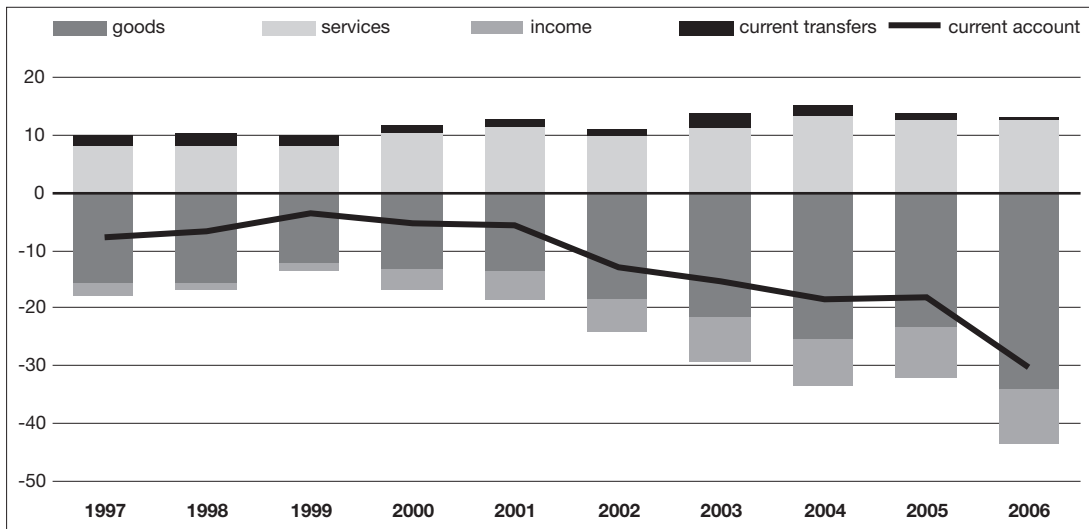


Figure 2. Current account structure (EEK bn)

Table 2. Current account balance by groups of countries (EEK m)

	2005	2006
EU-25	-16,445.9	-36,690.3
Germany*	-12,672.3	-13,969.3
Sweden	-2,127.1	-4,546.4
Poland	-3,275.8	-4,382.3
Latvia	3,903.2	3,971.7
Lithuania	-1,986.2	-3,638.2
CIS	-2,752.2	-10,209.2
Russia	-2,198.5	-9,062.5
Belarus	-1,464.9	-1,569.1
Ukraine	323.6	612.1
Other	1,059.7	16,539.8
USA	2,018.6	6,815.0
Gibraltar	1,506.0	5,546.1
Norway	2,066.2	2,793.6
Hong Kong	-2,302.7	-2,234.5
Togo	25.5	1,182.6
Total	-18,138.4	-30,359.7

* Countries are ranked by the absolute value of last period's current account balance.

and equipment. The target countries were Finland, Sweden, China and Hungary. Cables were exported to Sweden, Finland and Latvia, components of various mechanical equipment to Finland, and transformers to Finland, Sweden and Germany. The exports of timber and timber products increased by 10%. Wooden sleepers were exported to the United Kingdom, Germany, Finland and the Netherlands, construction components to Denmark, Japan, Sweden and Finland, and firewood to Finland, Denmark and Sweden. Wooden furniture and prefabricated wooden buildings went to Finland, Norway, Germany, Denmark and Sweden. The exports of metal products grew robustly with the main export articles being hot-rolled steel products (to Russia, Poland, Ukraine and Latvia), scrap metal (to Turkey, Egypt and the Netherlands) and iron constructions (to Finland, Denmark, Norway and Sweden). The exports of chemical products increased

Table 3. Imports and exports of goods

	Goods – credit (f.o.b.)			Goods – debit (f.o.b.)			Balance (EEK m)
	Volume* (EEK m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	Volume* (EEK m)	Change compared to the previous period (%)	Share in total imports of goods and services (%)	
1997	31,846.5	45.9	63.4	47,499.3	39.2	82.4	-15,652.8
1998	37,786.3	18.7	64.5	53,511.8	12.7	80.8	-15,725.5
1999	36,995.2	-2.1	62.8	49,092.1	-8.3	78.3	-12,096.9
2000	56,118.1	51.7	69.0	69,489.5	41.5	82.2	-13,371.4
2001	58,798.5	4.8	67.6	72,340.9	4.1	81.1	-13,542.4
2002	57,948.7	-1.4	67.3	76,404.0	5.6	80.7	-18,455.3
2003	63,443.7	9.5	67.4	85,110.4	11.4	81.6	-21,666.7
2004	75,199.5	18.5	67.8	100,698.5	18.3	82.0	-25,499.0
2005	98,148.2	30.5	71.1	121,444.0	20.6	81.7	-23,295.8
2006	119,929.6	22.2	73.4	153,870.1	26.7	83.4	-33,940.5

* Data of the foreign trade account of the balance of payments.

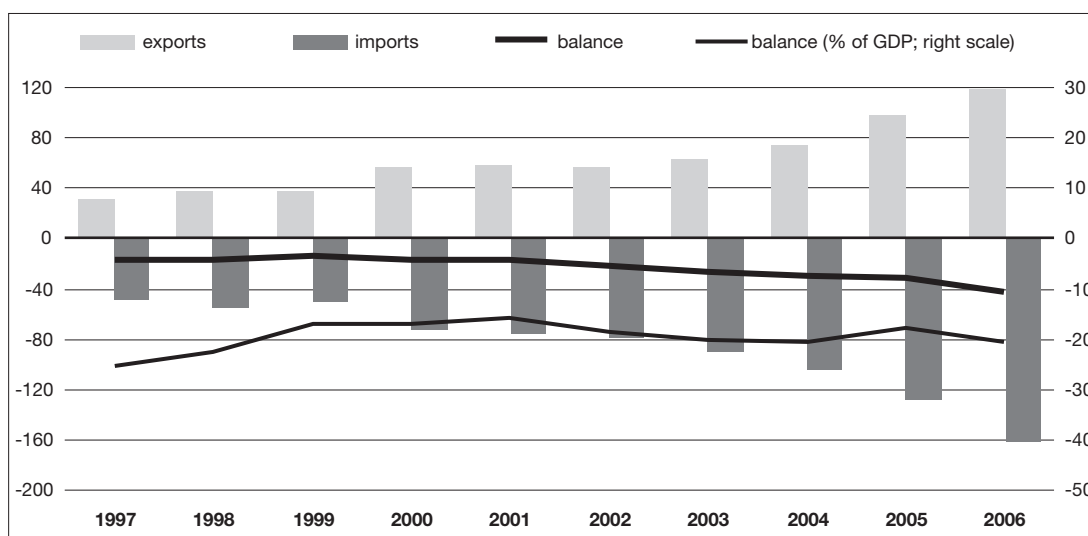


Figure 3. Estonia's foreign trade balance (EEK bn)

by 20%. Various construction materials (mastics, paints, varnishes, putties) were exported to Russia and Latvia, plastic products to Sweden, Latvia and Finland, carbonic acids to the United States and Germany, and nitrogen fertilizers to the States and France. The exports of food products increased by a fifth, whereas the exports of spirits almost doubled. The target countries were Russia and Finland. Fish fillet was sent to Switzerland, Denmark and the Netherlands, canned fish to Ukraine, Lithuania and Russia. Dairy products were exported to Germany, Latvia, Russia and Finland. The exports of transport vehicles increased by 25% year-on-year. 44% of the exports comprised motor cars imported mainly from Finland and Germany and exported to Latvia, Lithuania, Spain, Germany and Russia. Components of motor vehicles were exported to Sweden and Russia, and trailers to Finland and Sweden. The main export articles of textile products and

Table 4. Exports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Food	6,950.1	8,365.4	7.2	7.0	20.4
Mineral products	7,354.3	19,304.7	7.6	16.2	162.5
Chemical products	6,967.4	8,440.9	7.2	7.1	21.1
Clothing, footwear and headgear	8,312.5	8,091.0	8.6	6.8	-2.7
Timber, paper and products	12,774.5	14,018.3	13.2	11.8	9.7
Metals and metal products	8,629.6	10,881.6	8.9	9.1	26.1
Machinery and equipment	27,325.5	28,301.5	28.2	23.7	3.6
Transport vehicles	6,537.5	8,204.8	6.7	6.9	25.5
Furniture, toys, sporting goods	8,036.0	8,993.5	8.3	7.5	11.9
Other	4,036.7	4,636.0	4.2	3.9	14.8
Total	96,924.1	119,237.7	100.0	100.0	23.0

footwear were men's suits and shirts, women's costumes, leather footwear, bed linen, cotton fabric and fur, which were taken to Finland, Sweden, Latvia, Russia and Germany. As regards other goods, automatic equipment was exported to Finland, Germany and Sweden, toughened-glass panes and glass packaging to Belgium, Germany, Latvia and Lithuania, and cement products also to Latvia and Lithuania.

The **imports of goods** increased across all main groups of goods year-on-year (see Table 5). Import growth was mostly driven by the increase in the imports of mineral products, transport vehicles and chemical products. The imports of mineral products doubled year-on-year. 87% of that accounted for motor fuel imported both for processing (from Russia and Belarus) and for free circulation (from Lithuania). The imports of natural gas increased by a third and came from Russia. 75% of the transport vehicles imported comprised motor cars and trucks as well as their components, whereas the imports of the latter increased by 50%. The major exporting countries were Finland and Germany. The imports of chemical products grew by 25%. Medicines were purchased from Germany, Latvia, Poland and Denmark, various plastic products from Germany, Finland and Sweden, ethers from Russia and the United States, and tyres from Poland, Latvia and Germany. In the machinery and equipment group, mostly mobile communication devices and components of electronic equipment were imported both for processing and for internal supply. In addition,

Table 5. Imports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Food	10,985.9	11,800.3	8.6	7.3	7.4
Mineral products	11,898.7	24,043.1	9.3	14.9	102.1
Chemical products	14,964.3	18,730.6	11.7	11.6	25.2
Clothing, footwear and headgear	9,390.7	10,694.2	7.3	6.6	13.9
Timber, paper and products	7,003.8	8,392.9	5.5	5.2	19.8
Metals and metal products	13,066.4	15,845.3	10.2	9.8	21.3
Machinery and equipment	39,535.1	40,900.0	30.9	25.4	3.5
Transport vehicles	13,166.7	19,563.9	10.3	12.1	48.6
Furniture, toys, sporting goods	2,819.1	3,841.9	2.2	2.4	36.3
Other	4,964.9	7,354.4	3.9	4.6	48.1
Total	127,795.5	161,166.6	100.0	100.0	26.1

tion, computers, cables, roadworks machinery and other mechanisms were purchased. The major partner countries were Finland, Germany, Sweden, Hong Kong, China and the Netherlands. 25% of the imports of metal products comprised steel products from Finland, Turkey, Taiwan and Russia. In addition, various iron pipes and constructions were imported from Russia, Finland and Germany, metal furniture components from Germany and Finland, and aluminium from Tajikistan. Various food products were purchased from Finland, Lithuania, Latvia, Germany, the Netherlands and Poland. The biggest import articles were spirits and wines, pork, coffee, tobacco products and sugar. In the clothing, footwear and headgear group, the main import articles were footwear from Germany, the Netherlands and Italy; ready-made men's and women's clothes from Finland and Germany; underwear from Latvia, and various fabrics and textile commodities from China, Taiwan and the Republic of Korea. Raw wood and plywood from Russia and paper products from Finland and Sweden were the major import articles in the group of timber products. Various furniture and lamps were purchased from Finland, Poland and Italy.

According to preliminary data, **foreign trade deficit** increased by 11 billion kroons (see Table 6). Two groups of goods posted a surplus: timber and timber products, and furniture and other industrial goods. The deficit was mainly boosted by transport vehicles – the imports of motor cars alone exceeded the exports by 7.2 billion kroons. Chemical products and clothing, footwear and headgear also contributed to the deficit growth. The deficit in food products, however, decreased.

Table 6. Foreign trade balance by main groups of goods (EEK m)

	2005	2006
Food	-4,035.8	-3,434.9
Mineral products	-4,544.3	-4,738.4
Chemical products	-7,996.9	-10,289.7
Clothing, footwear and headgear	-1,078.2	-2,603.3
Timber, paper and products	5,770.8	5,625.4
Metals and metal products	-4,436.8	-4,963.7
Machinery and equipment	-12,209.7	-12,598.5
Transport vehicles	-6,629.2	-11,359.1
Furniture, toys, sporting goods	5,216.9	5,151.6
Other	-928.1	-2,718.4
Total	-30,871.4	-41,928.9

By groups of countries, the goods exports to the EU increased by only 1.7 billion kroons, whereas the share of the EU decreased by 13 percentage points year-on-year (see Table 7). Exports to the CIS and other countries, on the other hand, grew considerably. The main export partners in the EU were Finland, Sweden, Latvia, Germany and Lithuania. 28% of the exports to the EU comprised the exports of machinery and equipment (mostly electronic products), followed by the exports of timber and timber products as well as transport vehicles. Russia ranked first among the CIS members with exports to Russia increasing by 50%. Ukraine and Belarus followed. Exports to Russia mainly consisted of food and chemical products, machinery and equipment and transport vehicles. Exports to Ukraine comprised metal, mineral and food products, and Belarus purchased metal and chemical products. The top three of other countries were the United States, Gibraltar and China. The States and Gibraltar purchased oil products, whereas China imported electronic products from Estonia.

The share of the EU decreased also in the **imports of goods**, although the respective volume grew by 21 billion kroons. This stemmed from the larger volume of imports from the CIS (particularly Russia), which

grew by 84%, i.e. by 10 billion kroons (see Table 8). The top five of EU countries included Finland, Germany, Sweden, Lithuania and Latvia. From the EU, mainly machinery and equipment, transport vehicles (motor cars) and chemical products were imported to Estonia. 66% of the imports from Russia consisted of mineral products, the majority of which accounted for motor fuel imported for processing. Russia was followed by Belarus and Ukraine. Motor fuel was imported also from Belarus and metal products from Ukraine. The top three among other countries were China, Hong Kong and the United States. Estonia imported electronic components from China and Hong Kong, and machinery and equipment from the States.

Table 7. Exports of goods by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
EU-25	75,316.4	77,048.4	77.7	64.6	2.3
Finland	25,796.9	22,113.5	26.6	18.5	-14.3
Sweden	12,747.1	14,369.1	13.2	12.1	12.7
Latvia	8,441.3	10,436.7	8.7	8.8	23.6
Germany	6,010.8	6,031.5	6.2	5.1	0.3
Lithuania	4,492.4	5,713.0	4.6	4.8	27.2
CIS	8,381.1	12,570.5	8.6	10.5	50.0
Russia	6,284.2	9,471.3	6.5	7.9	50.7
Ukraine	1,335.2	1,847.9	1.4	1.5	38.4
Belarus	252.7	688.9	0.3	0.6	172.6
Other	13,226.6	29,618.8	13.6	24.8	123.9
USA	2,994.6	7,947.0	3.1	6.7	165.4
Gibraltar	1,496.6	5,529.5	1.5	4.6	269.5
China	528.1	3,308.6	0.5	2.8	526.5
Total	96,924.1	119,237.7	100.0	100.0	23.0

Table 8. Imports of goods by groups of countries*

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
EU-25	97,081.6	118,234.6	76.0	73.4	21.8
Finland	25,060.5	29,494.3	19.6	18.3	17.7
Germany	17,823.7	19,896.8	13.9	12.3	11.6
Sweden	11,207.1	13,864.3	8.8	8.6	23.7
Lithuania	7,676.7	9,917.3	6.0	6.2	29.2
Latvia	6,018.1	8,997.2	4.7	5.6	49.5
CIS	14,954.6	26,551.3	11.7	16.5	77.5
Russia	11,807.5	21,737.7	9.2	13.5	84.1
Belarus	1,623.8	2,280.8	1.3	1.4	40.5
Ukraine	1,156.7	1,298.4	0.9	0.8	12.3
Other	15,759.3	16,380.7	12.3	10.2	3.9
China	2,696.5	3,436.8	2.1	2.1	27.5
Hong Kong	2,414.3	2,356.5	1.9	1.5	-2.4
USA	1,847.4	1,921.0	1.4	1.2	4.0
Total	127,795.5	161,166.6	100.0	100.0	26.1

* Analysed by trading country.

Foreign trade remained in deficit with the EU as well as the CIS (see Table 9). As regards the EU Member States, Estonia had the biggest trade deficit with Germany and Finland, and the biggest surplus with Latvia, Hungary and Sweden. Russia accounted for 12 billion kroons of the total 14 billion kroons deficit with the CIS. Foreign trade balance was in surplus with Ukraine. As for other countries, the largest surplus on trade was recorded with the United States and Gibraltar.

Table 9. Foreign trade balance by groups of countries (EEK m)

	2005	2006
EU-25	-21,765.2	-41,186.2
CIS	-6,573.5	-13,980.8
Other	-2,532.7	13,238.1
Total	-30,871.4	-41,928.9

Services

The surplus of the services account amounted to 12.8 billion kroons in 2006, increasing by 1% on a year earlier (see Figure 4). Year-on-year, both the growth of services exports as well as imports slowed down by 9% and 12%, respectively (see Table 10). Compared to 2005, the share of services in the total turnover of goods and services decreased both in exports and imports. The surplus on the services account offset the foreign trade deficit by 38%, which is considerably less than in previous years.

The year 2006 brought about a significant change in the structure of services: the share of transport services grew considerably, i.e. to 39% of the surplus on the services account, and the share of computer and information services, which has so far been modest, accounted for 4% of the surplus (see Table 11). The growth of the surplus on the services account was inhibited by a 13% decrease in the surplus on travel services and the surplus on construction services turning into a deficit.

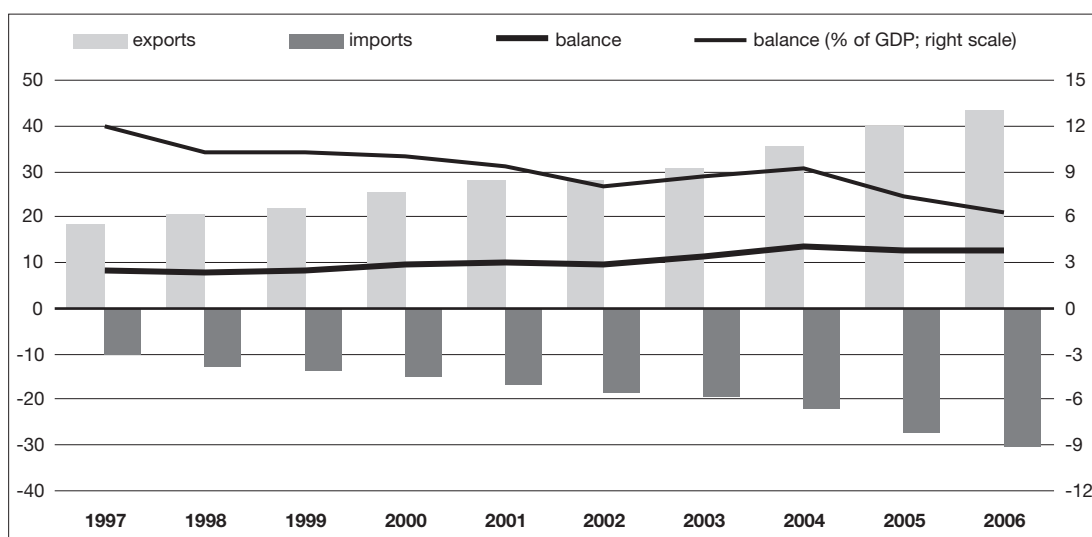


Figure 4. Services account (EEK bn)

Table 10. Exports and imports of services

	Exports			Imports			Balance	
	Volume (EEK m)	Change compared to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compared to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compared to the previous period (%)
1997	18,366.7	37.5	36.6	10,134.0	42.6	17.6	8,232.7	31.8
1998	20,804.0	13.3	35.5	12,754.8	25.9	19.2	8,049.2	-2.2
1999	21,951.9	5.5	37.2	13,610.4	6.7	21.7	8,341.5	3.6
2000	25,263.4	15.1	31.0	15,059.6	10.6	17.8	10,203.8	22.3
2001	28,135.4	11.4	32.4	16,840.6	11.8	18.9	11,294.8	10.7
2002	28,164.3	0.1	32.7	18,273.6	8.5	19.3	9,890.7	-12.4
2003	30,674.0	8.9	32.6	19,206.9	5.1	18.4	11,467.1	15.9
2004	35,666.4	16.3	32.2	22,086.1	15.0	18.0	13,580.3	18.4
2005	39,836.2	11.7	28.9	27,208.2	23.2	18.3	12,628.0	-7.0
2006	43,359.3	8.8	26.6	30,550.9	12.3	16.6	12,808.4	1.4

Table 11. Services balance by major categories

	Balance (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Transportation	3,747.8	4,946.7	29.7	38.6	32.0
Travel	6,335.1	5,484.4	50.2	42.8	-13.4
Construction services	52.0	-583.9	0.4	-4.6	-1,222.9
Computer and information services	136.6	541.6	1.1	4.2	296.5
Business services	2,373.4	2,353.7	18.8	18.4	-0.8
Government services	184.3	107.6	1.5	0.8	-41.6
Other	-201.1	-41.7	-1.6	-0.3	-79.3
Total	12,628.1	12,808.4	100.0	100.0	1.4

Services exports increased by 9% year-on-year; the exports of the two principal groups of services, namely transport and travel services, rose by 13% and 7%, respectively (see Table 12). The exports of computer and information services and business services grew faster than average (84% and 13%, respectively).

EU countries accounted for 72% of the services exports, whereas compared to 2005 their share has risen (see Table 13). The smaller share of the CIS is caused by the 12% decline in the exports to Russia. Services exports to offshore countries kept declining (16%).

Services imports increased by 12% in 2006 (see Table 14). The imports of construction services, which grew the most in 2005, decreased by 29% in 2006. The imports of transport services increased by only 8%.

75% of services imports came from EU countries, whereas imports from the CIS and other countries grew faster (see Table 15). As regards major partners from the EU, the imports of services from Finland grew faster than average (15%), whereas imports from other old EU Member States increased less than average.

The surplus on **transport services** grew by about 25% in 2006 and was mainly driven by the increased sale of sea transport services, particularly passenger transport and partly transport services (see Figures 5

Table 12. Services exports by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Transportation	15,679.5	17,773.4	39.4	41.0	13.4
freight	8,367.9	9,388.8	21.0	21.7	12.2
passenger	3,263.5	4,182.2	8.2	9.6	28.2
other transport services	4,048.1	4,202.4	10.2	9.7	3.8
Travel	11,968.0	12,833.0	30.0	29.6	7.2
Construction services	2,398.9	1,083.9	6.0	2.5	-54.8
Computer and information services	552.1	1,013.2	1.4	2.3	83.5
Business services	6,922.2	7,817.4	17.4	18.0	12.9
Government services	492.4	521.6	1.2	1.2	5.9
Other	1,823.1	2,316.8	4.6	5.3	27.1
Total	39,836.2	43,359.3	100.0	100.0	8.8

Table 13. Services exports by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
EU-25	27,345.3	31,254.1	68.6	72.1	14.3
Finland	12,790.3	13,993.2	32.1	32.3	9.4
Sweden	3,097.1	3,431.0	7.8	7.9	10.8
Germany	2,220.1	2,463.1	5.6	5.7	10.9
United Kingdom	2,371.2	2,301.4	6.0	5.3	-2.9
CIS	5,782.6	5,232.7	14.5	12.1	-9.5
Russia	4,809.9	4,247.4	12.1	9.8	-11.7
Kazakhstan	504.2	445.0	1.3	1.0	-11.7
Ukraine	354.4	392.0	0.9	0.9	10.6
Other	6,708.3	6,872.5	16.8	15.9	2.4
Switzerland	1,580.1	1,640.9	4.0	3.8	3.8
USA	1,768.8	1,523.9	4.4	3.5	-13.8
offshore regions	1,790.2	1,499.1	4.5	3.5	-16.3
Total	39,836.2	43,359.3	100.0	100.0	8.8

Table 14. Services imports by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Transportation	11,931.7	12,826.7	43.9	42.0	7.5
freight	7,935.2	8,560.6	29.2	28.0	7.9
passenger	1,134.6	1,401.4	4.2	4.6	23.5
other transport services	2,861.9	2,864.5	10.5	9.4	0.1
Travel	5,633.0	7,348.6	20.7	24.1	30.5
Construction services	2,346.8	1,667.8	8.6	5.5	-28.9
Computer and information services	415.5	582.7	1.5	1.9	40.2
Business services	4,548.8	5,463.7	16.7	17.9	20.1
Government services	308.1	413.9	1.1	1.4	34.3
Other	2,024.3	2,247.7	7.4	7.4	11.0
Total	27,208.2	30,550.9	100.0	100.0	12.3

Table 15. Services imports by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
EU-25	-20,310.1	-22,554.0	74.6	73.8	11.0
Finland	-5,080.4	-5,835.3	18.7	19.1	14.9
Germany	-3,632.3	-3,320.7	13.4	10.9	-8.6
Sweden	-2,115.4	-2,146.8	7.8	7.0	1.5
Latvia	-1,704.8	-1,821.2	6.3	6.0	6.8
CIS	-3,031.7	-3,562.3	11.1	11.7	17.5
Russia	-2,439.2	-2,900.2	9.0	9.5	18.9
Ukraine	-228.9	-336.9	0.8	1.1	47.2
Kazakhstan	-258.2	-197.1	0.9	0.6	-23.7
Other	-3,866.4	-4,434.6	14.2	14.5	14.7
USA	-909.2	-862.1	3.3	2.8	-5.2
Egypt	-390.1	-472.6	1.4	1.5	21.1
Norway	-281.5	-377.5	1.0	1.2	34.1
Total	-27,208.2	-30,550.9	100.0	100.0	12.3

and 6 and Tables 11, 12 and 14). The surplus on road transport services more than doubled. Rail transport, which is related to the transit of oil products and coal, remained at the level of 2005.

Total exports of transport services grew by 13% year-on-year; imports to EU countries increased by 25% (see Table 16). The biggest importer of transport services was again Finland. For the second consecutive year, exports to Cyprus picked up the fastest as a result of increased passenger transport. The share of other countries fell.

The imports of transport services grew much more modestly – by only 8% year-on-year (see Tables 14 and 16). Import growth was mainly driven by air transport, particularly passenger transport, which grew

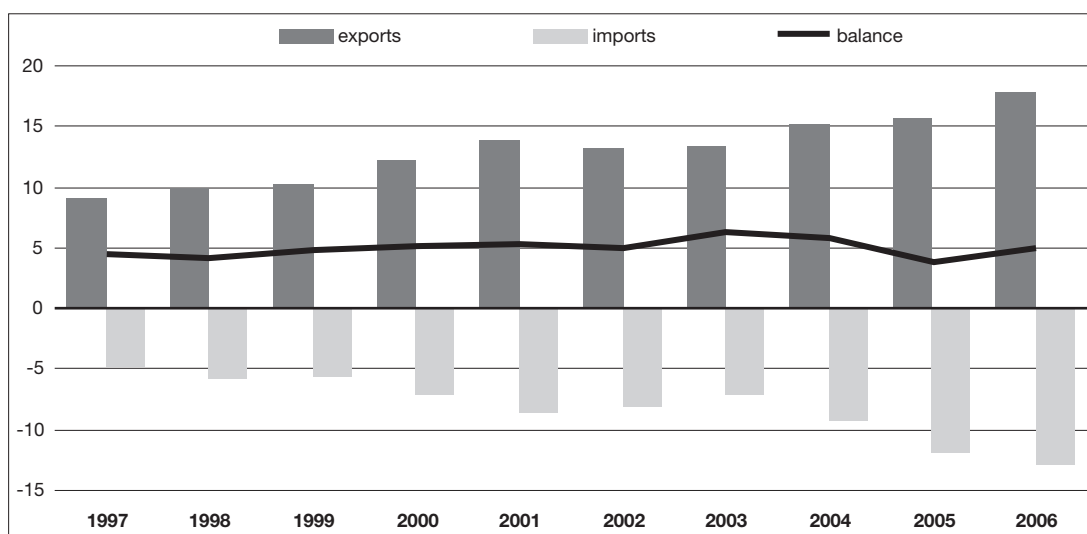


Figure 5. Transport services (EEK bn)

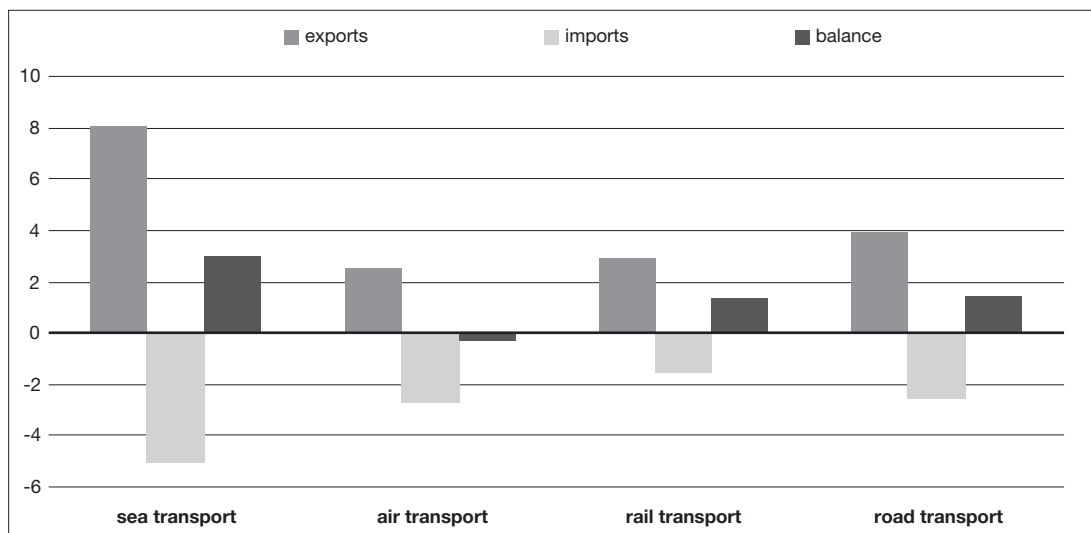


Figure 6. Structure of transport services in 2006 by transport type (EEK bn)

Table 16. Transport services by groups of countries in 2006

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%) 2006/2005		Volume (EEK m)	Share (%)	Change (%) 2006/2005
EU-25	12,751.2	71.7	25.0	EU-25	9,261.7	72.2	10.2
Finland	4,858.3	27.3	30.3	Finland	2,375.1	18.5	11.7
Sweden	1,553.2	8.7	24.7	Germany	1,454.6	11.3	15.5
Germany	1,219.6	6.9	24.7	Latvia	728.8	5.7	-1.8
United Kingdom	1,096.9	6.2	-15.3	Sweden	666.9	5.2	-8.4
Cyprus	1,050.9	5.9	98.3	Denmark	533.5	4.2	15.8
CIS	1,952.6	11.0	5.1	CIS	1,713.3	13.4	4.3
Russia	1,769.6	10.0	7.3	Russia	1,449.2	11.3	10.3
Ukraine	95.0	0.5	-4.7	Belarus	103.9	0.8	-49.8
Other	3,069.6	17.3	-15.2	Other	1,851.7	14.4	-1.8
Switzerland	1,026.9	5.8	13.8	offshore regions	414.3	3.2	5.4
offshore regions	773.8	4.4	-35.2	China	317.5	2.5	21.6
USA	627.1	3.5	-29.2	USA	223.5	1.7	-40.9
Total	17,773.4	100.0	13.4	Total	12,826.7	100.0	7.5

by 24% compared to 2005. The imports of transport services from the EU increased by 10% year-on-year, Finland being the main trading partner. The volume of transport services provided by the CIS grew by 13% year-on-year. The imports of transport services from other countries decreased by a few per cent, whereas the share of China in imports rose and that of the United States fell.

The surplus on **travel services** decreased by 13% in 2006, as exports increased by 7% and imports by 31% (see Figure 7). The growth in travel services exports has been slowing down in the last two years and reflects only changes in the structure of travel services. The number of Finnish tourists has decreased, whereas the number of tourists from Scandinavia and other EU countries has increased. In 2006, labour mobility took place in both directions: so far labour outflow from Estonia to wealthier EU countries could

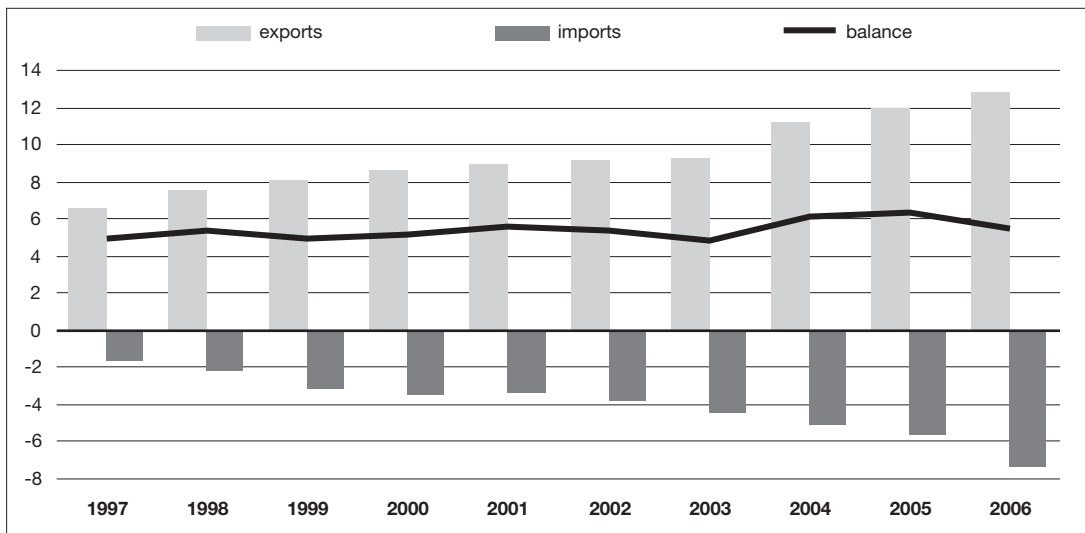


Figure 7. Travel services (EEK bn)

be noted, whereas in 2006 also the inflow of migrant workers to more labour-intensive fields of activity in Estonia (construction, metal-working, etc.) could be detected. The living costs of temporary labour during the working period are recorded under travel services.

The imports of travel services grew faster than the exports, which resulted from a rise in the number of residents taking up short-term employment abroad. The number of Estonians' trips abroad did not rise considerably in 2006 (6%), but the length and cost of trips has grown along with increased financial capabilities. In some quarters of 2006, the number of tourism trips purchased by Estonian travel agencies and sold to Estonians exceeded, for the first time, the cost of tourism trips sold by travel agencies to non-residents. The imports of travel services to EU countries increased by 33%, whereas imports from Finland picked up nearly 50% (see Table 17). As regards the most popular destinations for Estonians, the number of trips to Greece grew by 39%, to Hungary by 27%, to France by 26% and to Thailand by 25%.

Table 17. Travel services by groups of countries in 2006

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%) 2006/2005		Volume (EEK m)	Share (%)	Change (%) 2006/2005
EU-25	10,026.8	78.1	8.4	EU-25	-5,114.7	69.6	32.7
Finland	6,546.5	51.0	4.7	Finland	-1,318.1	17.9	49.5
Sweden	898.3	7.0	14.3	Germany	-596.5	8.1	42.9
United Kingdom	537.8	4.2	9.6	United Kingdom	-446.7	6.1	29.7
Germany	493.2	3.8	54.0	Sweden	-406.7	5.5	1.6
CIS	1,930.0	15.0	-5.9	CIS	-946.5	12.9	38.5
Russia	1,809.9	14.1	-7.7	Russia	-744.7	10.1	37.5
Ukraine	92.4	0.7	44.0	Ukraine	-105.9	1.4	49.9
Other	876.2	6.8	30.8	Other	-1,287.4	17.5	17.5
Norway	332.9	2.6	89.9	Egypt	-352.7	4.8	24.9
USA	248.3	1.9	3.7	USA	-194.8	2.7	11.6
Switzerland	37.4	0.3	6.2	Turkey	-104.6	1.4	-32.1
Total	12,833.0	100.0	7.2	Total	-7,348.6	100.0	30.5

Income

The income account deficit increased slightly year-on-year and amounted to 9.4 billion kroons, i.e. 4.6% of GDP (see Table 18 and Figure 8).

The growth rate of the deficit has been inhibited by the faster growth of income earned by residents abroad compared to the income earned by non-residents in Estonia. Labour income witnessed net inflow, whereas investment income experienced net outflow. The income account of Estonia's balance of payments is largely affected by reinvested earnings which include no actual movement of funds. Excluding from the income account reinvested earnings, which involve no actual movement of funds, the income account had a deficit of only about 0.2 billion kroons, i.e. 0.1% of GDP (see Table 19).

Table 18. Income

	Inflow		Outflow		Balance	
	Volume (EEK m)	Change compared to previous period (%)	Volume (EEK m)	Change compared to previous period (%)	Volume (EEK m)	Change compared to previous period (%)
1997	1,594.1	17.9	3,604.6	171.8	-2,010.5	-7,773.7
1998	1,871.8	17.4	3,035.8	-15.8	-1,164.0	-42.1
1999	1,964.3	4.9	3,470.1	14.3	-1,505.8	29.4
2000	2,032.5	3.5	5,491.4	58.2	-3,458.9	129.7
2001	3,022.2	48.7	7,920.8	44.2	-4,898.6	41.6
2002	3,371.3	11.6	8,762.4	10.6	-5,391.1	10.1
2003	3,449.5	2.3	10,824.8	23.5	-7,375.3	36.8
2004	5,484.5	59.0	13,435.3	24.1	-7,950.8	7.8
2005	8,463.0	54.3	17,192.3	28.0	-8,729.3	9.8
2006	12,146.0	43.5	21,509.1	25.1	-9,363.1	7.3

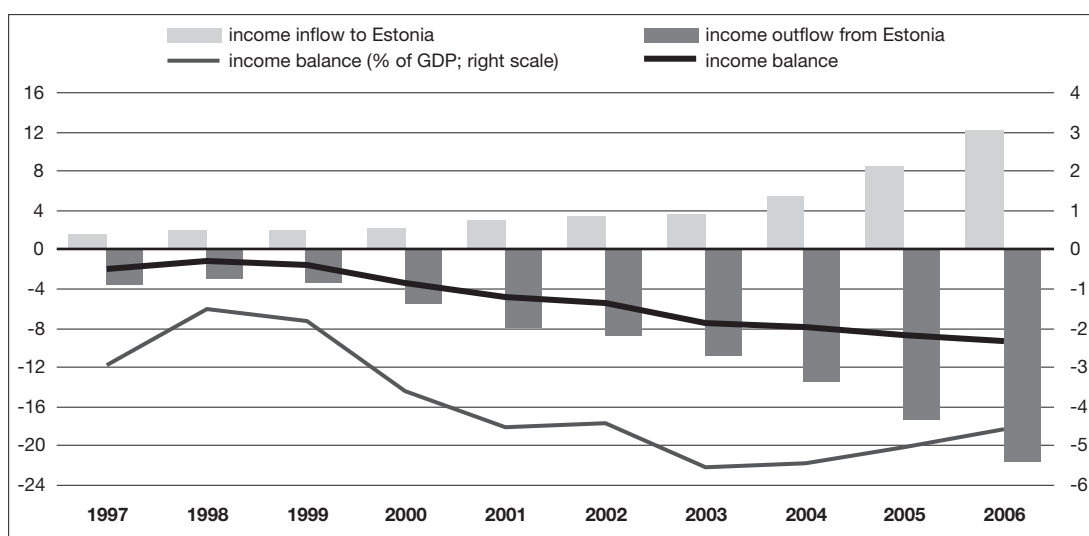


Figure 8. Income (EEK bn)

Income inflow stood at a record 12.1 billion kroons, having increased by approximately a half year-on-year (see Table 20). 90% of the income earned by residents abroad came from EU countries (see Table 21). Labour income accounted for 40% of the income inflow; the rest was investment income. The former grew by over 50% and the latter by nearly 40% year-on-year. Estonian residents earned labour income mostly

Table 19. Structure of the income account

	Balance (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Labour income	2,592.7	3,960.3	-29.7	-42.3	52.7
Investment income	-11,322.0	-13,322.8	129.7	142.3	17.7
Income on direct investment	-10,128.1	-11,811.4	116.0	126.2	16.6
income on equity	-2,296.3	-9,874.3	-11,245.8	105.5	330.0
reinvested earnings	-7,792.9	-9,118.2	89.3	97.4	17.0
dividends	-2,081.3	-2,127.7	23.8	22.7	2.2
income on debt (interests)	-253.9	-565.6	2.9	6.0	122.8
Income on portfolio investment	-395.2	324.6	4.5	-3.5	-182.1
Income on other investment	-798.6	-1,836.0	9.1	19.6	129.9
Total	-8,729.3	-9,362.5	100.0	100.0	7.3

Table 20. Income inflow to Estonia

	Balance (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Labour income	3,213.7	4,877.7	38.0	40.2	51.8
Investment income	5,249.3	7,269.0	62.0	59.8	38.5
Income on direct investment	3248.4	4943.4	38.4	40.7	52.2
income on equity	2967.6	4552.8	35.1	37.5	53.4
reinvested earnings	1,930.8	4,087.8	22.8	33.7	111.7
dividends	1,036.8	465.0	12.3	3.8	-55.2
income on debt (interests)	280.8	390.6	3.3	3.2	39.1
Income on portfolio investment	1,019.6	1,446.1	12.0	11.9	41.8
Income on other investment	981.2	879.5	11.6	7.2	-10.4
Total	8,463.0	12,146.6	100.0	100.0	43.5

Table 21. Income by groups of countries in 2006

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%) 2006/2005		Volume (EEK m)	Share (%)	Change (%) 2006/2005
EU-25	10,938.3	90.1	49.8	EU-25	19,117.1	88.9	28.5
Latvia	2,541.5	20.9	68.9	Sweden	7,264.3	33.8	33.2
Finland	2,237.3	18.4	58.4	Finland	6,775.9	31.5	50.4
Lithuania	1,555.9	12.8	32.6	United Kingdom	1,249.9	5.8	-7.5
United Kingdom	991.7	8.2	48.0	Germany	723.3	3.4	-12.4
CIS	331.4	2.7	14.0	CIS	629.6	2.9	9.6
Russia	263.2	2.2	-2.5	Russia	510.8	2.4	1.1
Ukraine	44.9	0.4	244.1	Ukraine	96.3	0.4	166.8
Other	876.9	7.2	1.0	Other	1,762.4	8.2	1.0
USA	345.8	2.8	-34.6	USA	430.5	2.0	-48.9
Norway	230.7	1.9	382.6	Switzerland	196.7	0.9	179.4
Total	12,146.6	100.0	43.5	Total	21,509.1	100.0	25.1

in Finland (42% of the labour income inflow), the United Kingdom (19%), Ireland (10%) and Sweden (9%). 68% of the investment income inflow was direct investment income, with reinvested earnings forming 83% of that. The rest of income was earned on portfolio and other investment (12% and 7%, respectively). Residents received investment income mostly in Latvia and Lithuania (55%) and to a lesser extent in Cyprus and Germany. The largest share of residents' investment income (55%) belonged to the investors of financial intermediation. The investors of transport, storage and communications as well as real estate, renting and business activities earned less (14% and 11%, respectively; see Figure 9).

Income outflow posted a record too, amounting to 21.5 billion kroons (see Table 22). Approximately 90% of the income earned by non-residents in Estonia belonged to EU residents (see Table 21). Most of income outflow comprised investment income (96%), the rest being labour income. Labour income earned in Estonia increased by nearly 50% and investment income by 25%, year-on-year. In Estonia, mainly Finnish (43%), Swedish (20%), Ukrainian and Polish residents earned on labour income.

The share of direct investment income in non-residents' income earned in Estonia was more or less the same as in 2005, namely 81%. 80% of that was reinvested earnings. 13% of the investment income earned in Estonia was earned on other investment and 5% on portfolio investment. In Estonia, mostly Swedish and Finnish investors earned on investment (34% and 31%, respectively), and to a lesser extent also UK (6%) and German investors. Non-residents earned income in Estonia primarily on financial intermediation (37%), wholesale and retail trade (16%), real estate, renting and business activities (14%) and manufacturing (14%).

Current and capital transfers³

The surplus on the current transfers account decreased considerably year-on-year and amounted to 135 million kroons (see Table 23). The inflow of current transfers decreased by 6% and stood at 5.9 billion kroons. Slightly over a half of that accounted for funds channelled into the Estonian economy through the general government (primarily allocations from the EU structural funds and revenues from taxes). The inflow of current transfers of other sectors increased slightly year-on-year, amounting to 2.9 billion kroons. 67% of that came from the EU (agricultural subsidies from the European Commission, transfers from Germany, Finland, Belgium and Sweden). The outflow of current transfers increased by 15% and reached 5.8 billion kroons. Payments into the EU budget and VAT refunds by the general government accounted for 54% of the outflow. Other sectors' transfers were also mainly made to the EU (Finland, Germany, Sweden, and the United Kingdom).

The surplus on **capital transfers** grew by 78% year-on-year, amounting to 2.8 billion kroons. Capital transfers into Estonia mainly comprised EU subsidies to the general government for various infrastructure objects and investments.

³ Although capital transfers are reflected under the capital and financial account in the IMF methodology, the present analysis treats them together with current transfers. The distribution of European Union structural funds available for Estonia into current and capital transfers is not clearly distinguishable and is, therefore, based on the expert estimates of the Ministry of Financial Affairs, the Ministry of Agriculture, and Eesti Pank (according to the purpose of structural funds).

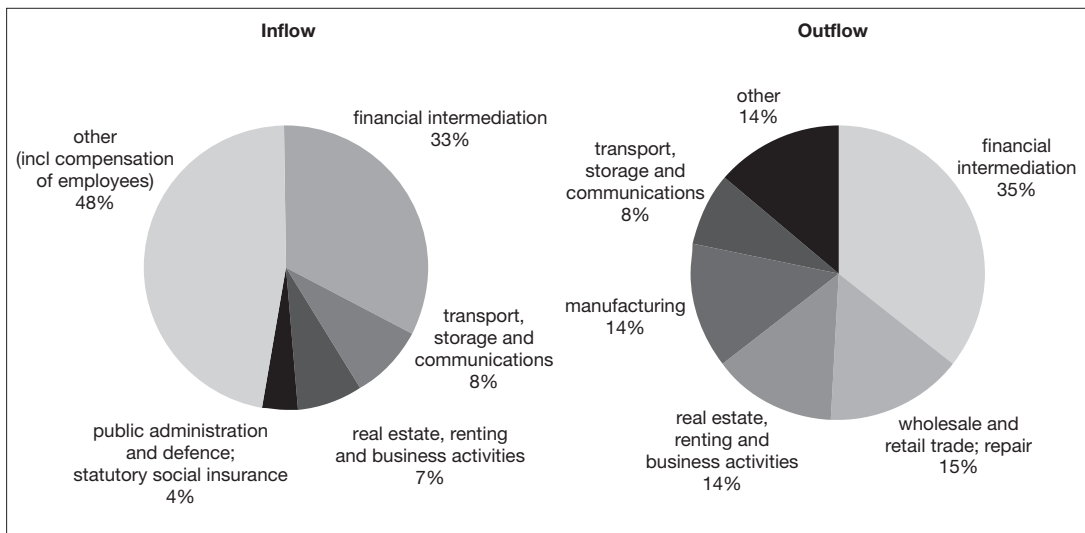


Figure 9. Inflow and outflow of income by fields of activity in 2006

Table 22. Income outflow from Estonia

	Balance (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Labour income	621.0	917.4	3.6	4.3	47.7
Investment income	16,571.3	20,591.7	96.4	95.7	24.3
Income on direct investment	13,376.5	16,754.8	77.8	77.9	25.3
income on equity	12,841.9	15,798.6	74.7	73.5	23.0
reinvested earnings	9,723.7	13,205.9	56.6	61.4	35.8
dividends	3,118.2	2,592.7	18.1	12.1	-16.9
income on debt (interests)	534.7	956.2	3.1	4.4	78.8
Income on portfolio investment	1,414.9	1,121.4	8.2	5.2	-20.7
Income on other investment	1,779.9	2,715.5	10.4	12.6	52.6
Total	17,192.3	21,509.1	100.0	100.0	25.1

Table 23. Current transfers by groups of countries (EEK m)

	Received		Paid		Balance	
	2005	2006	2005	2006	2005	2006
Current transfers	6,267.4	5,905.5	5,008.7	5,770.5	1,258.7	134.9
government transfers	3,646.4	2,996.5	3,173.6	3,195.5	472.8	-199.0
EU-25	3,127.8	2,621.6	3,135.3	3,140.3	-7.5	-518.7
CIS	370.9	235.5	3.8	6.5	367.1	229.1
other	147.8	139.4	34.5	48.8	113.3	90.6
private transfers	2,620.9	2,908.9	1,835.0	2,575.0	785.9	333.9
EU-25	2,151.7	1,958.1	1,470.2	2,103.4	681.5	-145.3
CIS	61.7	456.6	113.5	143.5	-51.9	313.1
other	407.6	494.3	251.3	328.0	156.3	166.2
Capital transfers	1,650.7	2,994.5	47.3	148.4	1,603.4	2,846.1
government transfers	1,609.1	2,584.8	0.0	0.8	1,609.1	2,584.1
private transfers	41.7	409.7	47.3	147.7	-5.7	262.0

FINANCIAL ACCOUNT

The surplus on the financial account⁴ was 33.7 billion kroons in 2006. Foreign capital inflow occurred mainly through other investment and to some extent also through direct investment. Figures 10 and 11 show the structure of the financial account by categories and maturities.

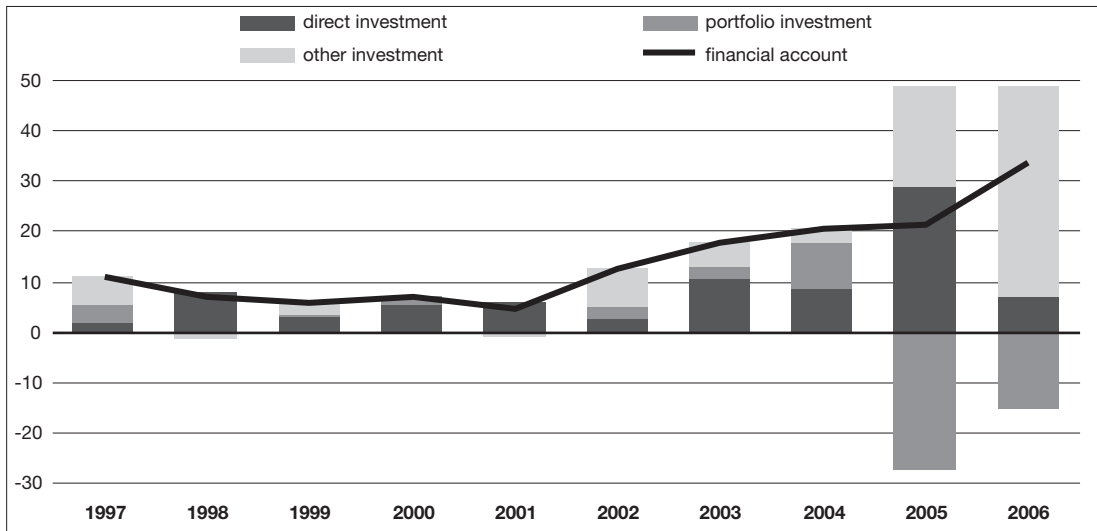


Figure 10. Changes in the structure of foreign investment capital flows (EEK bn)

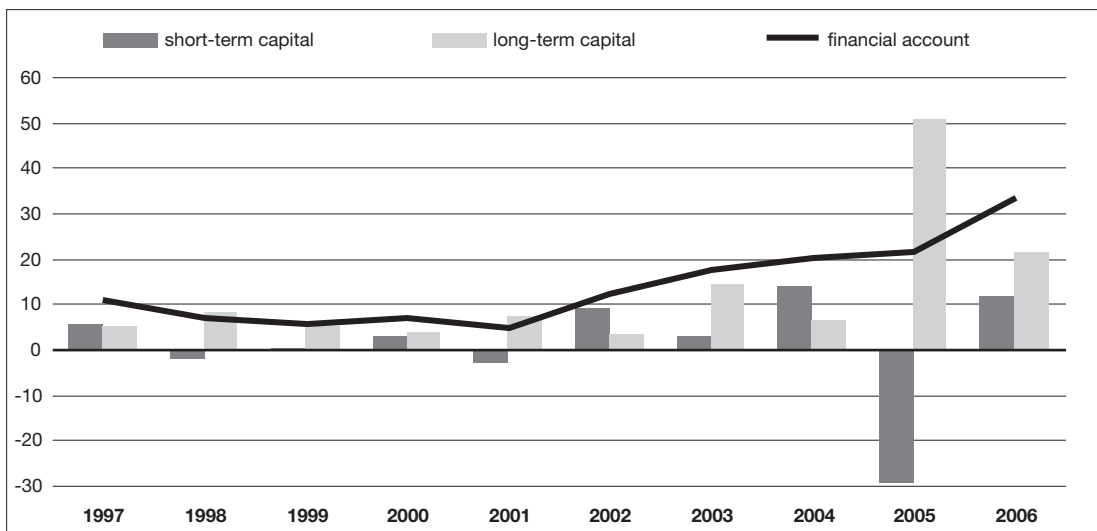


Figure 11. Maturity structure of the financial account (EEK bn)

⁴ Without reserve assets.

Direct investment

Direct investment posted a surplus of 7.2 billion kroons in 2006, accounting for 27% of the financial account surplus. Non-residents invested 20.1 billion kroons in Estonia and Estonian residents' direct investment abroad grew by 12.9 billion kroons (see Figure 12).

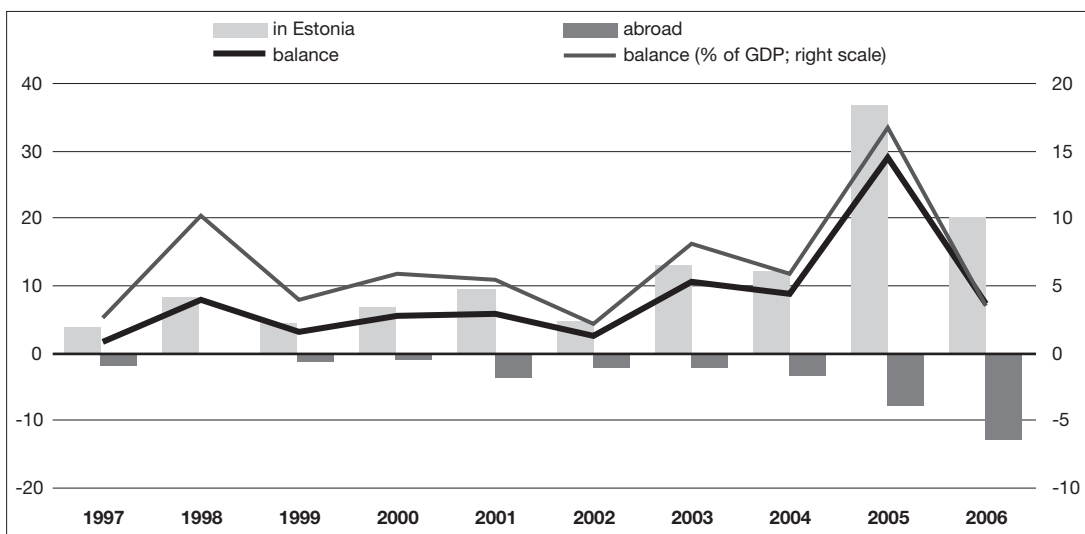


Figure 12. Direct investment (EEK bn)

The inflow of **direct investment in Estonia** was extremely large compared to previous years, although year-on-year it declined by almost two times. The record growth of direct investment in 2005 mostly stemmed from the buying up of shares from foreign minority shareholders by Hansapank's core investor. Equity capital investment accounted for 12% of total direct investment growth. Economic expansion is reflected also in the increase in reinvested earnings. Compared to 2005, reinvested earnings grew by a third, amounting to 13.2 billion kroons. A third of that was the income of non-resident owners of credit institutions. High incomes were also earned in the fields of trade, manufacturing, and real estate, renting and business activities. Compared to 2005, net claims to direct investors related to long-term and short-term loans increased by two thirds. Long-term loan liabilities grew significantly – the net outflow reached 6.7 billion kroons, with 5.8 billion kroons accounting for the subordinated debt of banks (see Tables 24 and 25).

Largest investments traditionally came from Sweden (51%) and Finland (30%). UK and Russian long-term investors contributed as well (5%). Direct investment in financial intermediation (61%), manufacturing (21%) and transport, storage and communications (8%) grew the most. 98% of direct investment came from EU Member States (see Figure 14 and Table 26).

Direct investment abroad exceeded last year's volume by two thirds. Direct investment outflow has been constantly doubling over the last three years. Thus, we can again state that never before in the history of compiling Estonia's balance of payments has the outflow been that large. 45% of direct investment boosted equity capital in foreign subsidiaries and associated companies and the share of Estonian enterprises in net profit (reinvested earnings) grew by approximately a third. As of 2006, Eesti Pank has been using a new

Table 24. Structure of direct investment in Estonia

	Equity capital		Reinvested earnings		Other capital				Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Assets		Liabilities		Volume (EEK m)	Share (%)
					Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)		
1997	1,360.8	36.8	1,303.8	35.3	-97.4	-2.6	1,126.9	30.5	3,694.1	100.0
1998	5,661.9	70.1	389.4	4.8	-203.9	-2.5	2,224.0	27.6	8,071.4	100.0
1999	2,551.9	57.4	721.9	16.2	-265.0	-6.0	1,439.2	32.4	4,448.0	100.0
2000	3,925.3	59.1	1,815.2	27.3	-397.3	-6.0	1,301.3	19.6	6,644.5	100.0
2001	3,641.2	38.6	3,878.9	41.1	-950.7	-10.1	2,860.2	30.3	9,429.6	100.0
2002	821.0	17.1	3,370.3	70.2	-772.6	-16.1	1,381.5	28.8	4,800.2	100.0
2003	5,329.9	41.4	6,406.7	49.8	-1,334.0	-10.4	2,462.7	19.1	12,865.3	100.0
2004	4,638.6	38.2	7,989.5	65.8	-1,454.0	-12.0	961.5	7.9	12,135.5	100.0
2005	28,681.8	78.1	9,723.7	26.5	-2,002.4	-5.4	343.4	0.9	36,746.4	100.0
2006	2,316.9	11.5	13,205.9	65.8	-3,594.3	-17.9	8,133.1	40.5	20,061.7	100.0

Table 25. Loan capital assets and liabilities to foreign direct investors (EEK m)

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repayments	Grantings	Repayments	Drawings	Repayments	Drawings	Repayments
2003	408.4	246.4	1,010.7	498.7	5,155.6	2,667.1	3,020.9	3,726.9
2004	492.7	371.2	1,774.1	862.1	4,601.5	4,882.2	3,091.7	2,197.2
2005	1,276.3	501.3	2,255.5	1,413.4	7,106.6	6,977.6	5,014.9	4,617.7
2006	2,281.7	747.7	3,545.6	2,422.3	12,860.5	6,162.7	3,943.9	3,360.7

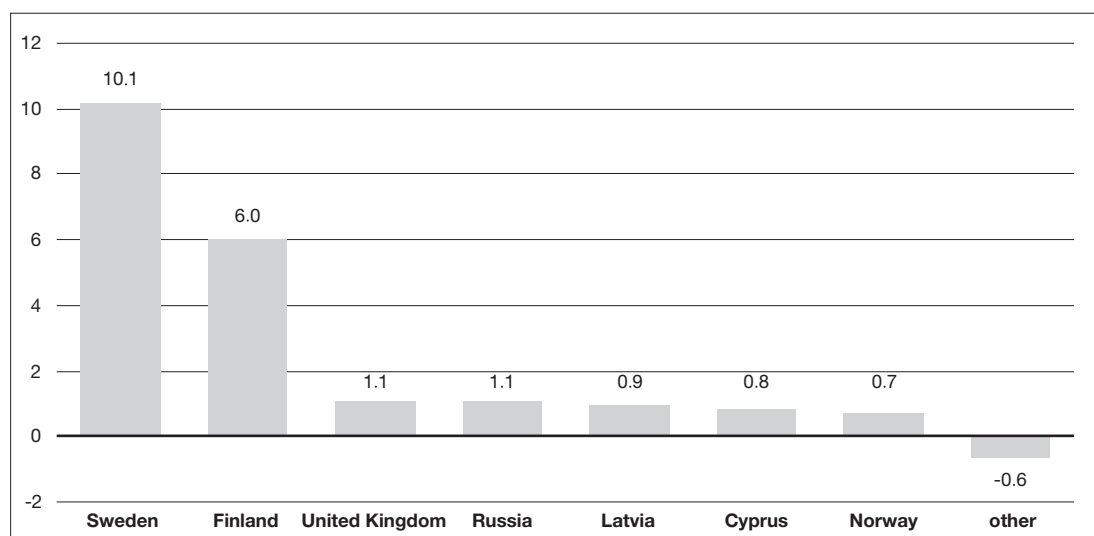


Figure 13. Direct investment in Estonia by countries in 2006 (EEK bn)

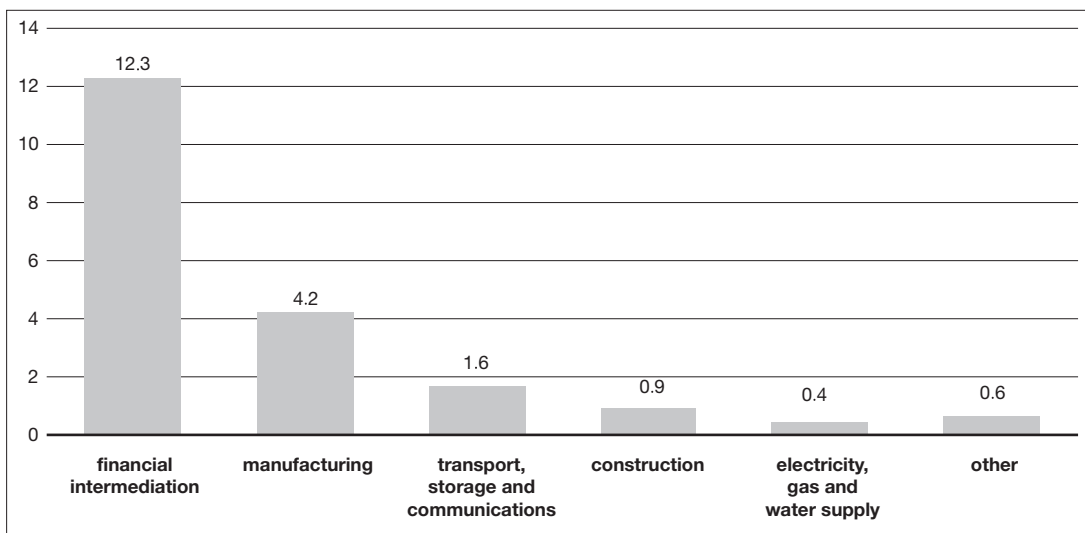


Figure 14. Direct investment in Estonia by fields of activity in 2006 (EEK bn)

Table 26. Direct investment in Estonia by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
EU-25	36,170.5	19,691.2	98.4	98.2	-45.6
CIS	890.0	1,111.6	2.4	5.5	24.9
Other	-314.1	-741.1	-0.9	-3.7	135.9
Total	36,746.4	20,061.7	100.0	100.0	-45.4

methodology for the calculation of reinvested earnings of foreign subsidiaries and affiliated companies⁵. The assets of other foreign investment capital formed 29% of the total outflow. The long-term loan liabilities of subsidiaries and affiliated companies increased by 3 billion kroons. Nearly half of the liabilities were loans granted by financial intermediaries (see Tables 27 and 28).

The largest investments went in Latvia (37%) and Lithuania (27%). Investments made in Finland grew by 2 billion kroons (see Figure 15). The biggest investor was the financial intermediation sector (39%), followed by real estate, renting and business activities (34%), wholesale and retail trade (11%), and transport, storage and communications (5%). 88% of the outflow went to the European Union. 77% of that was channelled into new Member States (see Table 29 and Figure 16).

⁵ As of 2006, the entry of foreign reinvested earnings indicates the share of an Estonian qualifying shareholder in the retained profits/losses of non-resident subsidiaries and affiliated companies. Beforehand, this item included the change in the equity capital of an investment object acquired, reflected on the basis of the equity method of the long-term financial investments of a direct investor. This, however, was not methodically correct. The change in methodology enables to give a fairer picture of our income abroad. In previous years the outflow of direct investment was relatively modest and therefore enterprises could be saved from the excessive accounting burden.

Table 27. Structure of direct investment abroad

	Equity capital		Reinvested earnings		Other capital				Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Assets		Liabilities		Volume (EEK m)	Share (%)
					Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)		
1997	-539.2	28.2	-88.5	4.6	-1,303.2	68.1	18.0	-0.9	-1,912.9	100.0
1998	-472.7	578.6	-2.7	3.3	386.7	-473.3	7.0	-8.6	-81.7	100.0
1999	-525.7	42.4	-115.7	9.3	-641.3	51.7	42.9	-3.5	-1,239.8	100.0
2000	-579.7	55.6	-65.9	6.3	-480.8	46.1	83.3	-8.0	-1,043.1	100.0
2001	-1,897.1	53.8	-305.2	8.7	-1,242.8	35.2	-83.2	2.4	-3,528.3	100.0
2002	-903.9	41.3	-665.5	30.4	-727.2	33.2	108.2	-4.9	-2,188.4	100.0
2003	-1,060.0	49.3	-741.4	34.5	-645.8	30.0	297.9	-13.9	-2,149.2	100.0
2004	-2,175.2	64.2	-919.6	27.1	-434.2	12.8	140.3	-4.1	-3,388.6	100.0
2005	-5,214.5	67.5	-1,930.8	25.0	-933.5	12.1	351.5	-4.5	-7,727.3	100.0
2006	-5,807.4	45.1	-4,087.8	31.7	-3,692.9	28.7	712.3	-5.5	-12,875.8	100.0

Table 28. Loan capital assets and liabilities to foreign subsidiaries and associated companies (EEK m)

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repayments	Grantings	Repayments	Drawings	Repayments	Drawings	Repayments
2003	1,107.1	716.6	472.1	503.8	4.0	11.6	84.2	98.8
2004	934.8	1,232.5	952.4	368.9	17.9	61.2	27.9	37.1
2005	2,144.0	1,698.8	1,710.6	1,107.4	109.6	60.7	104.9	25.0
2006	5,335.5	2,380.9	1,518.7	1,607.1	118.5	114.3	146.1	20.6

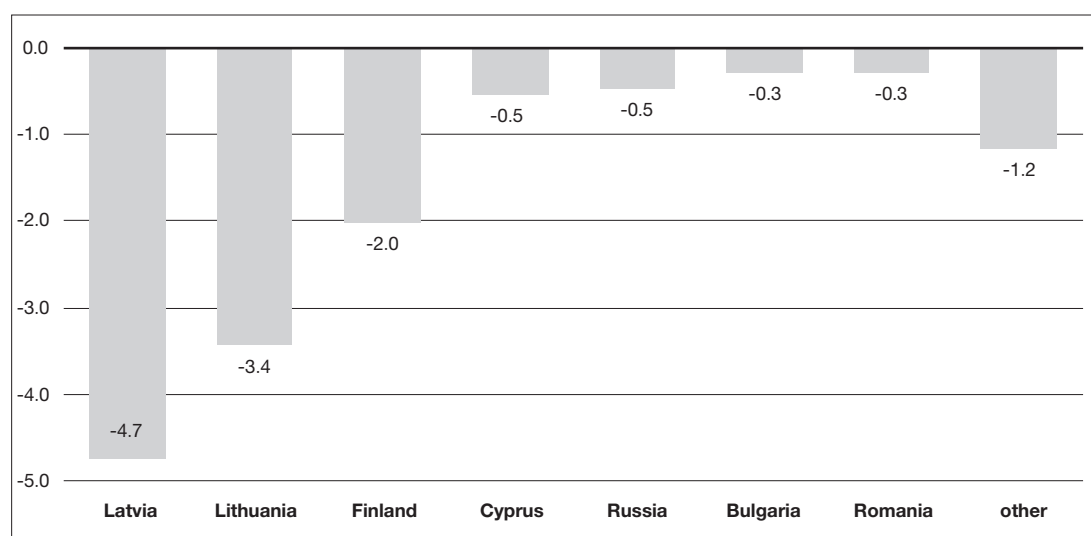


Figure 15. Direct investment abroad by countries in 2006 (EEK bn)

Table 29. Direct investment abroad by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
EU-25	-5,062.5	-11,367.6	65.5	88.3	124.5
CIS	-2,404.0	-898.5	31.1	7.0	-62.6
Other	-260.8	-609.7	3.4	4.7	133.8
Total	-7,727.3	-12,875.8	100.0	100.0	66.6

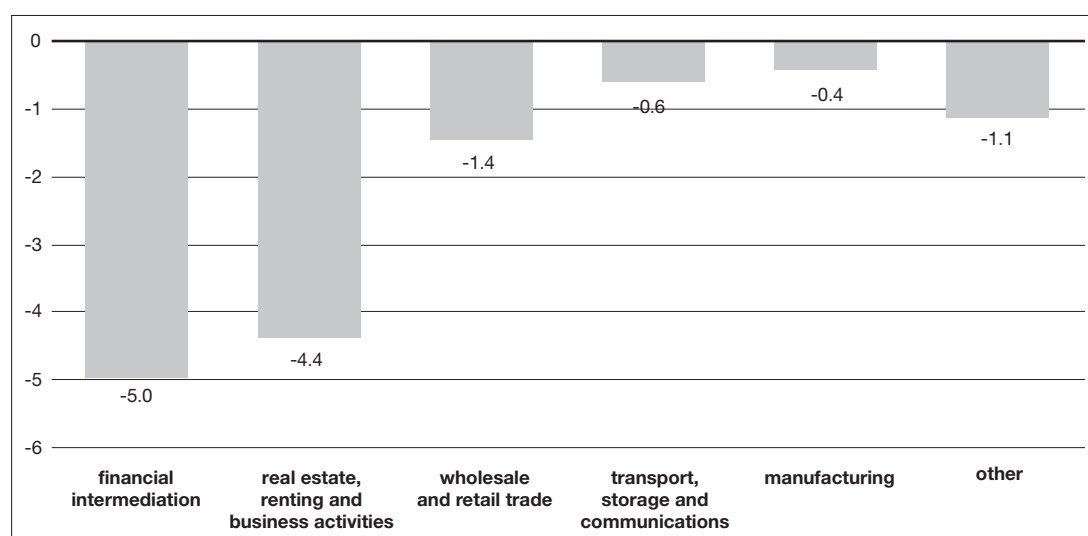


Figure 16. Direct investment abroad by fields of activity in 2006 (EEK bn)

Portfolio investment

The net outflow of **portfolio investment** was 15.3 billion kroons in 2006. This resulted mainly from investments in debt securities made by the general government, credit institutions and enterprises in other sectors (see Figure 17 and Table 30).

Portfolio investment liabilities grew by 124 million kroons in 2006 (see Table 31). Equity security liabilities increased by 5.1 billion kroons, whereas debt security liabilities decreased by 5 billion kroons. As regards equity securities, mainly transactions with enterprises in other sectors were carried out, but the decrease in debt security liabilities was related to credit institutions. By countries, portfolio investment liabilities to the United States as well as to some EU countries (e.g. Finland, Latvia, Lithuania and Sweden) increased the most (see Figure 18 and Table 32). Total liabilities to EU Member States, however, decreased. This was primarily caused by the decrease in the liabilities to the United Kingdom in the amount of 5.7 billion kroons.

Portfolio investment assets grew by 15.4 billion kroons year-on-year (see Table 33) in terms of both equity and debt securities (by 4.7 and 10.7 billion kroons, respectively). The most active investors in equity securities issued by non-residents were companies in other sectors, who invested the total of 4.5 billion

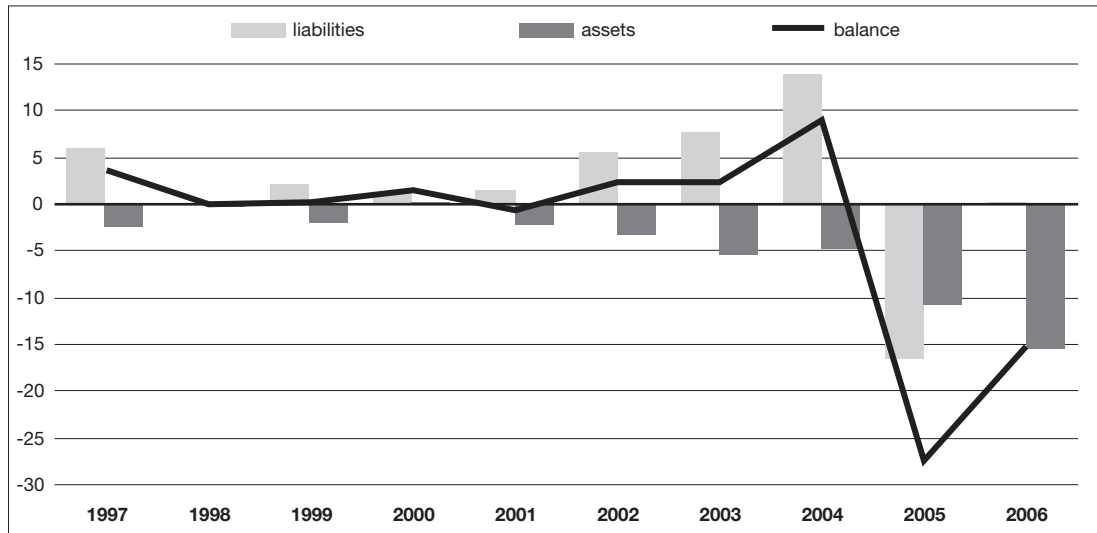


Figure 17. Portfolio investment (EEK bn)

Table 30. Portfolio investment by types of securities and sectors (EEK m)

	Assets		Liabilities		Balance	
	2005	2006	2005	2006	2005	2006
Equity securities	-4,848.9	-4,718.1	-16,179.6	5,123.2	-21,028.5	405.1
central bank	-3.4				-3.4	
general government	-8.7	-167.2			-8.7	-167.2
credit institutions	-124.4	-69.6	-22,600.3	25.0	-22,724.7	-44.6
other sectors	-4,712.4	-4,481.3	6,420.6	5,098.1	1,708.2	616.8
Debt securities	-5,969.5	-10,719.1	-414.6	-4,999.2	-6,384.1	-15,718.3
central bank						
general government	-1,292.9	-5,676.5	135.3	858.3	-1,157.6	-4,818.2
credit institutions	-766.7	-2,720.9	-3,192.2	-5,508.0	-3,958.9	-8,228.9
other sectors	-3,909.9	-2,321.7	2,642.2	-349.5	-1,267.7	-2,671.2
Total	-10,818.4	-15,437.2	-16,594.2	124.0	-27,412.6	-15,313.2

Table 31. Structure of portfolio investment liabilities

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1997	1,763.6	29.5	4,210.8	70.5	5,974.4	100.0
1998	401.1	383.8	-296.6	-283.8	104.5	100.0
1999	3,292.3	160.5	-1,241.4	-60.5	2,050.9	100.0
2000	-538.8	-42.0	1,820.7	142.0	1,281.9	100.0
2001	568.4	40.6	832.1	59.4	1,400.5	100.0
2002	912.2	16.4	4,649.4	83.6	5,561.6	100.0
2003	1,526.9	19.6	6,256.4	80.4	7,783.3	100.0
2004	2,205.3	15.9	11,673.0	84.1	13,878.3	100.0
2005	-16,179.6	97.5	-414.6	2.5	-16,594.2	100.0
2006	5,123.2	4,131.6	-4,999.2	-4,031.6	124.0	100.0

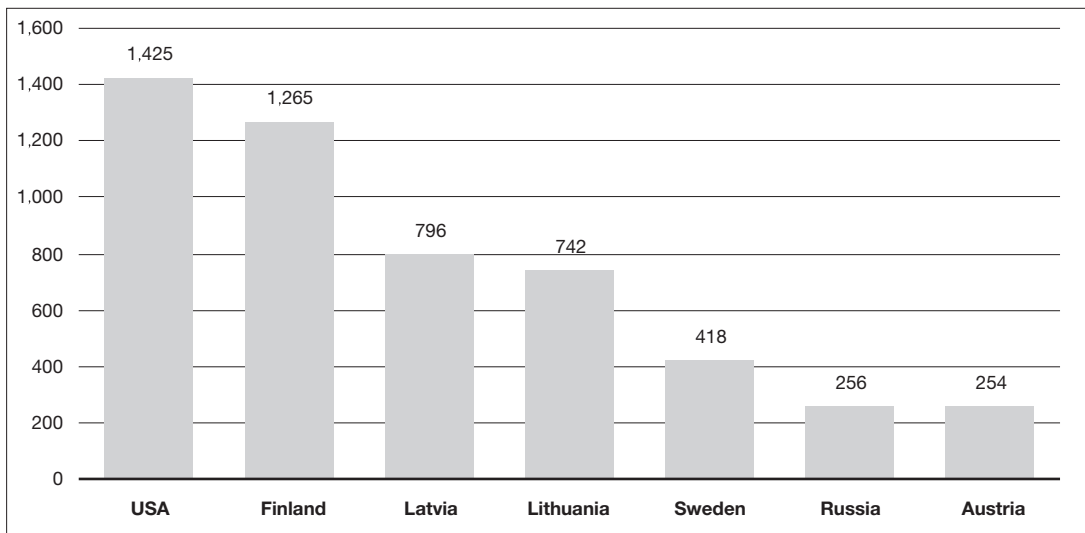


Figure 18. Increase in portfolio investment liabilities by countries in 2006 (EEK bn)

Table 32. Structure of portfolio investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2005	2006	2005	2006	2005	2006	2005	2006
EU-25	-7,750.8	-12,011.4	-12,526.2	-1,569.3	71.6	77.8	75.5	-1,265.6
CIS	-589.5	-1,185.7	105.8	257.5	5.4	7.7	-0.6	207.7
Other	-2,478.1	-2,240.1	-4,173.8	1,435.8	22.9	14.5	25.2	1,157.9
Total	-10,818.4	-15,437.2	-16,594.2	124.0	100.0	100.0	100.0	100.0

Table 33. Structure of portfolio investment assets

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1997	-1,238.5	53.4	-1,080.8	46.6	-2,319.3	100.0
1998	500.8	-391.6	-628.7	491.6	-127.9	100.0
1999	187.0	-9.9	-2,081.9	109.9	-1,894.9	100.0
2000	53.3	34.8	99.8	65.2	153.1	100.0
2001	236.5	-11.3	-2,336.7	111.3	-2,100.2	100.0
2002	9.1	-0.3	-3,192.0	100.3	-3,182.9	100.0
2003	-1,028.9	19.2	-4,322.7	80.8	-5,351.6	100.0
2004	-2,893.5	60.6	-1,882.2	39.4	-4,775.7	100.0
2005	-4,848.9	44.8	-5,969.5	55.2	-10,818.4	100.0
2006	-4,718.1	30.6	-10,719.1	69.4	-15,437.2	100.0

kroons. The general government invested the most in debt securities and money market instruments in the total amount of 5.7 billion kroons. Credit institutions invested 2.7 billion and enterprises in other sectors 2.3 billion kroons. By countries, portfolio investment went mainly to Germany, France, the Netherlands and Luxembourg (see Figure 19).

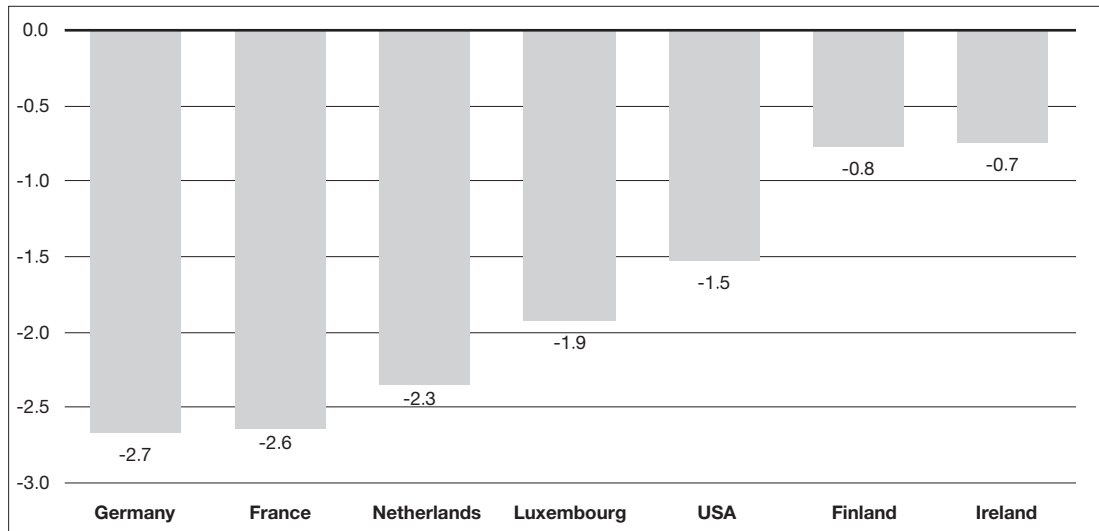


Figure 19. Increase in portfolio investment assets by countries in 2006 (EEK bn)

Other investment

The net inflow of **other investment** reached 41.7 billion kroons in 2006, with other investment liabilities increasing by 40.5 billion kroons (see Figure 20). Looking at the structure of other investment by maturity, capital inflow occurred both through short-term and long-term capital (see Table 34).

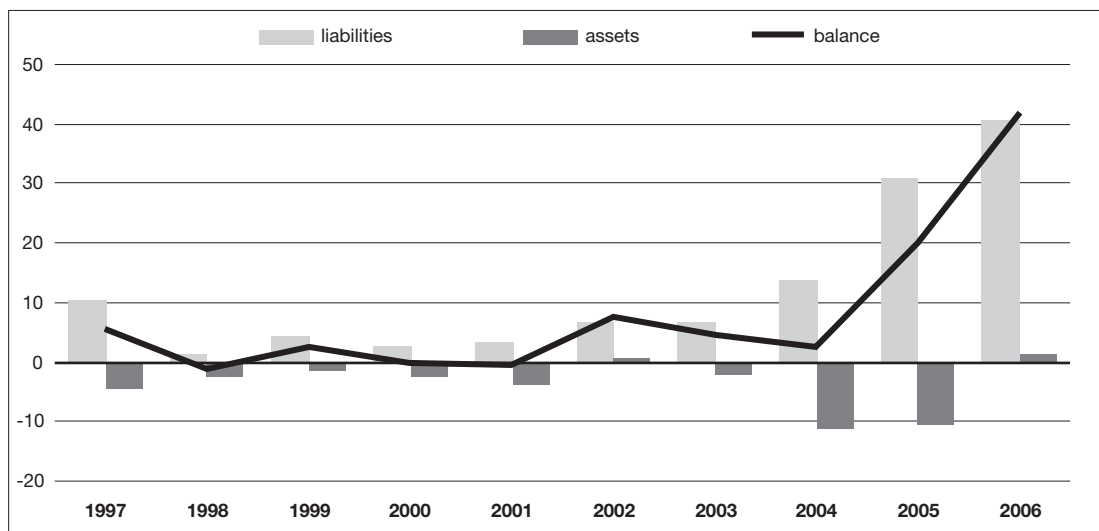


Figure 20. Other investment (EEK bn)

Table 34. Other investment by maturity (EEK m)

	Assets		Liabilities		Balance	
	2005	2006	2005	2006	2005	2006
Long-term capital	5,432.1	-3,261.4	16,085.6	17,887.1	21,517.7	14,625.7
central bank	-0.7	0.2			-0.7	0.2
general government	-60.9	-56.5	-178.3	-33.3	-239.2	-89.8
credit institutions	2,953.7	-2,355.3	12,094.8	8,811.7	15,048.5	6,456.4
other sectors	2,540.0	-849.8	4,169.1	9,108.7	6,709.1	8,258.9
Short-term capital	-16,139.0	4,554.0	14,579.9	22,595.6	-1,559.1	27,149.6
central bank			-693.3	377.8	-693.3	377.8
general government	-60.2	428.5			-60.2	428.5
credit institutions	-15,572.3	9,000.9	13,643.3	15,988.1	-1,929.0	24,989.0
other sectors	-506.5	-4,875.4	1,629.9	6,229.7	1,123.4	1,354.3
Total	-10,706.9	1,292.6	30,665.5	40,482.7	19,958.6	41,775.3

Table 35. Structure of other investment liabilities

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1997	367.0	3.6	6,399.7	63.0	2,426.0	23.9	961.8	9.5	10,154.5	100.0
1998	-221.2	-16.3	290.0	21.3	365.5	26.9	924.2	68.0	1,358.5	100.0
1999	119.1	2.8	2,399.7	57.3	1,462.7	34.9	204.3	4.9	4,185.8	100.0
2000	1,080.9	41.6	-785.3	-30.2	1,955.4	75.3	345.6	13.3	2,596.6	100.0
2001	102.9	3.1	2,570.4	78.2	81.4	2.5	533.5	16.2	3,288.2	100.0
2002	781.1	11.6	1,963.3	29.2	3,763.5	55.9	225.4	3.3	6,733.3	100.0
2003	-115.7	-1.7	3,219.5	47.8	4,587.9	68.2	-960.3	-14.3	6,731.4	100.0
2004	625.2	4.6	4,564.6	33.3	8,804.7	64.2	-279.4	-2.0	13,715.1	100.0
2005	1,616.7	5.3	25,453.6	83.0	2,953.3	9.6	642.0	2.1	30,665.7	100.0
2006	45.5	0.1	18,469.4	45.6	20,959.8	51.8	1,007.8	2.5	40,482.6	100.0

Other investment liabilities increased by 40.5 billion kroons year-on-year (see Table 35), whereas growth was observed across all sub-items of liabilities. Deposits and loans held the largest share in the volume of liabilities with 52% and 46%, respectively. As regards the institutional breakdown, the liabilities (both in the form of short-term and long-term capital) of credit institutions increased the most (by 24.8 billion kroons), followed by those of enterprises in other sectors (by 15.3 billion kroons). By countries, other investment capital liabilities to Sweden and Finland grew the most – by 24.9 and 7 billion kroons, respectively (see Figure 21 and Table 36).

Other investment assets decreased by 1.3 billion kroons in 2006 (see Table 37). This arose from a 6.5 billion kroon decrease in deposit assets. Trade credit and loan assets increased by 2 and 3.2 billion kroons, respectively. By countries, other investment capital was mainly channelled to the United Kingdom, Russia and Finland (see Figure 22). Table 38 provides a more detailed overview of loan capital assets and liabilities.

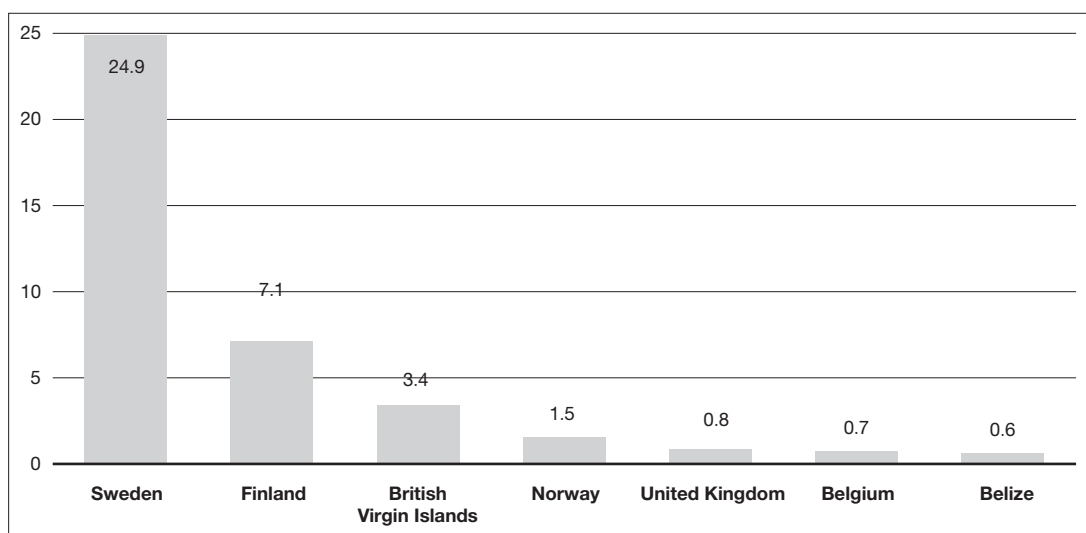


Figure 21. Increase in other investment liabilities by countries in 2006 (EEK bn)

Table 36. Structure of other investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2005	2006	2005	2006	2005	2006	2005	2006
EU-25	-8,947.0	6,110.6	29,081.6	33,853.3	83.6	472.7	94.8	83.6
CIS	-518.0	-2,782.6	541.1	-74.8	4.8	-215.3	1.8	-0.2
Other	-1,241.9	-2,035.4	1,042.8	6,704.2	11.6	-157.5	3.4	16.6
Total	-10,706.9	1,292.6	30,665.5	40,482.7	100.0	100.0	100.0	100.0

Table 37. Structure of other investment assets

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1997	-851.4	18.4	-1,633.3	35.2	-1,820.5	39.3	-330.3	7.1	-4,635.5	100.0
1998	-993.7	40.1	-542.2	21.9	-1,049.9	42.3	105.6	-4.3	-2,480.2	100.0
1999	-401.8	24.3	-57.4	3.5	-887.9	53.8	-304.1	18.4	-1,651.2	100.0
2000	-78.0	3.0	-2,814.0	106.7	-103.0	3.9	356.7	-13.5	-2,638.3	100.0
2001	-584.8	15.7	-2,278.9	61.3	-738.0	19.9	-115.0	3.1	-3,716.7	100.0
2002	1,047.6	150.7	-1,324.5	-190.5	742.6	106.8	229.4	33.0	695.1	100.0
2003	-1,028.2	45.0	-3,520.3	154.1	2,209.3	-96.7	54.6	-2.4	-2,284.6	100.0
2004	-1,032.0	9.2	-8,455.5	75.7	-1,545.1	13.8	-136.2	1.2	-11,168.8	100.0
2005	-1,977.4	18.5	3,835.2	-35.8	-12,251.5	114.4	-313.3	2.9	-10,706.9	100.0
2006	-2,030.6	-157.1	-3,183.8	-246.3	6,524.5	504.8	-17.6	-1.4	1,292.5	100.0

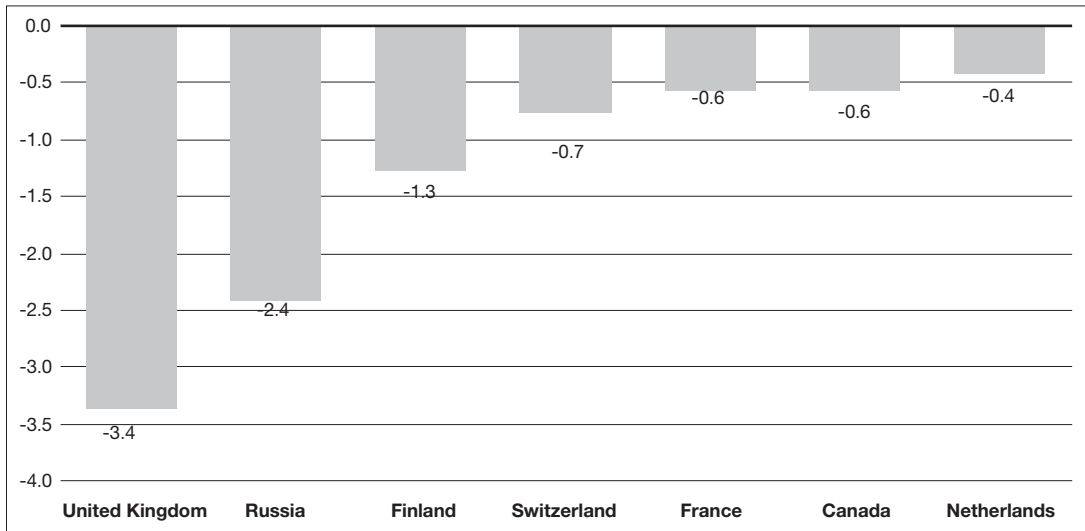


Figure 22. Increase in other investment assets by countries in 2006 (EEK bn)

Table 38. Assets and liabilities of loan capital (EEK m)

	Assets			Liabilities		
	Grantings	Repayments	Balance	Drawings	Repayments	Balance
2003	-34,919.2	31,398.9	-3,520.3	30,076.6	-26,857.1	3,219.5
2004	-29,782.7	21,327.1	-8,455.5	45,446.7	-40,882.1	4,564.6
2005	-77,660.1	81,495.3	3,835.2	126,231.3	-100,777.7	25,453.6
2006	-76,238.0	73,054.2	-3,183.8	182,233.2	-163,763.8	18,469.4

Reserve assets

The balance of payments reserves increased by 7.5 billion kroons in 2006 (see Table 39). Figure 23 provides an overview of the imports covered by reserve assets.

Table 39. Structure of changes in reserve assets

	Volume (EEK m)		Share (%)	
	2005	2006	2005	2006
Gold	0.0	0.0	0.0	0.0
Currency and deposits	-389.5	-1,506.0	8.0	20.0
Securities	-4,470.3	-6,017.4	91.5	80.0
equity securities				
bonds and notes	-1,870.6	-3,404.3	38.3	45.3
money market instruments	-2,599.7	-2,613.2	53.2	34.7
Other assets	-24.1	0.5	0.5	-0.0
Total	-4,883.9	-7,522.9	100.0	100.0

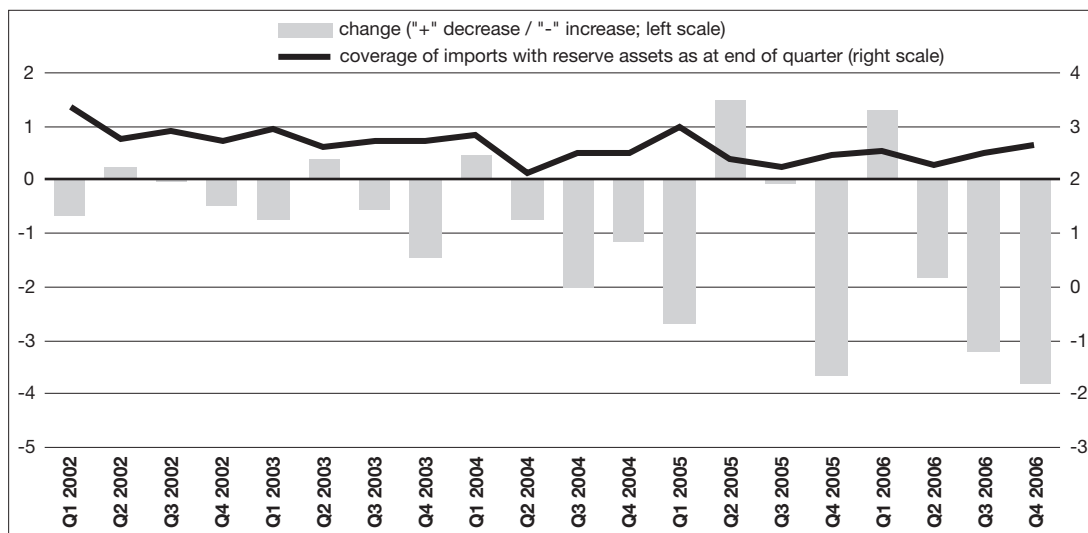


Figure 23. Changes in Estonia's gold and foreign exchange reserves (EEK bn) and coverage of imports (by months)

ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT as at 31 December 2006

During 2006, foreign investment in Estonia increased by a fifth, amounting to 377 billion kroons by the end of the year (see Table 40). Nearly 60% thereof was invested in financial intermediation and to a lesser extent also in manufacturing, real estate, renting and business activities, and wholesale and retail trade (see Table 41). Most of investment in Estonia came from Sweden (44%), Finland (20%), and the United Kingdom (8%).

The large inflow of other capital (loans and deposits) in 2006 changed also the structure of **foreign investment in Estonia** by the end of the year: the other investment position increased by over 40% and

Table 40. Estonia's international investment position (EEK m)

	31/12/2005	%	31/12/2006	%
EXTERNAL ASSETS	141,588.1	100.0	181,164.8	100.0
Direct investment abroad	26,119.2	18.4	42,264.1	23.3
Equity capital and reinvested earnings	20,210.4	14.3	33,144.0	18.3
Other direct investment capital	5,908.8	4.2	9,120.1	5.0
Portfolio investment	39,180.7	27.7	57,271.8	31.6
Equity securities	13,425.9	9.5	21,226.2	11.7
Debt securities	25,754.8	18.2	36,045.6	19.9
Bonds and notes	15,062.6	10.6	25,902.8	14.3
Money market instruments	10,692.2	7.6	10,142.7	5.6
Financial derivatives	360.1	0.3	526.3	0.3
Other investment	50,155.2	35.4	47,947.4	26.5
Trade credit	8,996.3	6.4	11,004.9	6.1
Loans	20,151.1	14.2	21,860.6	12.1
Long-term	5,357.6	3.8	7,589.0	4.2
Short-term	14,793.5	10.4	14,271.6	7.9
Currency and deposits	20,038.9	14.2	13,942.0	7.7
Other assets	969.0	0.7	1,139.9	0.6
Reserve assets	25,773.0	18.2	33,155.2	18.3
EXTERNAL LIABILITIES	308,880.4	100.0	376,854.7	100.0
Direct investment in Estonia	168,174.2	54.4	193,860.2	51.4
Equity capital and reinvested earnings	154,608.5	50.1	172,571.9	45.8
Other direct investment capital	13,565.7	4.4	21,288.3	5.6
Portfolio investment	44,795.6	14.5	46,342.0	12.3
Equity securities	15,805.9	5.1	22,418.8	5.9
Debt securities	28,989.7	9.4	23,923.2	6.3
Bonds and notes	28,512.8	9.2	23,812.5	6.3
Money market instruments	477.0	0.2	110.7	0.0
Financial derivatives	132.3	0.0	394.3	0.1
Other investment	95,778.3	31.0	136,258.2	36.2
Trade credit	10,590.1	3.4	10,711.1	2.8
Loans	55,264.4	17.9	73,232.8	19.4
Long-term	42,042.9	13.6	58,843.5	15.6
Short-term	13,221.5	4.3	14,389.2	3.8
Currency and deposits	28,205.6	9.1	49,286.4	13.1
Other liabilities	1,718.3	0.6	3,028.0	0.8
NET INVESTMENT POSITION	-167,292.3		-195,689.9	
Long-term	-163,468.1		-176,727.1	
Short-term	-3,824.2		-18,962.8	

Table 41. Estonia's international investment position by fields of activity and countries (%)

Assets			Liabilities		
Fields of activity					
	31/12/2005	31/12/2006		31/12/2005	31/12/2006
Financial intermediation	70.9	65.1	Financial intermediation	56.1	58.6
Public administration and defence; statutory social insurance	9.3	10.0	Manufacturing	9.4	9.3
Real estate, renting and business activities	6.3	8.7	Real estate, renting and business activities	10.1	9.1
Wholesale and retail trade; repair	5.4	6.4	Wholesale and retail trade; repair	6.9	7.3
Manufacturing	3.8	3.9	Transport, storage and communications	4.5	4.7
Other	4.3	5.9	Other	13.0	11.0
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2005	31/12/2006		31/12/2005	31/12/2006
Germany	11.0	11.0	Sweden	42.0	43.7
Latvia	9.8	10.5	Finland	19.2	19.8
Lithuania	15.7	9.3	United Kingdom	11.1	8.4
Russia	7.6	8.1	Germany	3.6	3.0
United Kingdom	6.5	7.7	USA	3.0	2.3
Other	49.4	53.4	Other	21.1	22.8
Total	100.0	100.0	Total	100.0	100.0

the respective share accounted for 36% of total foreign investment at the end of the year. The direct investment position grew by 15% year-on-year, comprising 51%, i.e. 194 billion kroons, of foreign investment (54% at the end of 2005). The modest growth of portfolio investment also decreased their share in total external liabilities. The most preferred fields of activity for **foreign direct investment in Estonia** were financial intermediation (40%), real estate, renting and business activities (29%), and transport, storage and communications (10%; see Table 42). Swedish and Finnish investors made slightly over a half and a fifth of direct investment, respectively.

Table 42. Direct investment position by fields of activity and countries (%)

In Estonia			Abroad		
Fields of activity					
	31/12/2005	31/12/2006		31/12/2005	31/12/2006
Financial intermediation	45.0	39.7	Financial intermediation	45.7	45.5
Real estate, renting and business activities	22.8	29.1	Manufacturing	13.3	14.0
Transport, storage and communications	10.8	9.9	Real estate, renting and business activities	15.3	13.2
Wholesale and retail trade; repair	7.3	7.8	Wholesale and retail trade; repair	7.8	8.0
Activities of households	5.3	4.5	Activities of households	8.7	7.7
Other	8.8	9.0	Other	9.2	11.6
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2005	31/12/2006		31/12/2005	31/12/2006
Sweden	53.3	51.4	Latvia	29.5	33.3
Finland	20.6	21.2	Lithuania	31.1	31.0
United Kingdom	2.1	3.1	Russia	14.8	9.4
Netherlands	3.0	2.7	Cyprus	8.9	8.6
Norway	1.8	2.5	Finland	1.9	2.0
Other	19.2	19.1	Other	13.8	15.7
Total	100.0	100.0	Total	100.0	100.0

Estonian investment abroad increased by 28% year-on-year, amounting to 181 billion kroons.

Financial intermediaries made 65% of the investment abroad. Investors in the public sector, real estate, renting and business activities, and wholesale and retail trade invested to a lesser extent. Estonian investors preferred to invest in Germany, the Baltic States, Russia, and the United Kingdom.

Compared to the end of 2005, the share of direct investment in the structure of investment abroad increased considerably and that of other investment decreased. The share of **foreign direct investment** grew by over 60% year-on-year, accounting for 23% of the external assets (18% at the end of 2005). Portfolio investment increased as well (nearly 50%), forming a third of the external assets. The most active foreign direct investors were those of financial intermediation (46%), manufacturing (14%), and real estate, renting and business activities (13%; see Table 42). Estonian investors preferred to invest in the neighbouring countries: a third of direct investment went both to Latvia and Lithuania and 9% was channelled to Russia.

Due to the prevalence of external liabilities, Estonia's net investment position was negative by 196 billion kroons at the end of 2006, being only 4% smaller than the volume of GDP. 90% of the net investment position was long-term capital.

Estonia's gross external debt increased by a third year-on-year, amounting to 196 billion kroons (96% of GDP) at the end of the year. The growth in the gross external debt was mainly affected by other sectors and credit institutions, whose debt liabilities increased by 40% and 23%, respectively. The debt liabilities of credit institutions comprised slightly over a half and those of other sectors over a fourth of the gross external debt. Estonia's net external debt (assets less liabilities) increased by 80% and constituted 55 billion kroons (27% of GDP; see Figure 24 and Table 43). The gross external debt accounted for 52% of the external liabilities. Leaving aside the intercompany lending of direct investment companies, long-term debt liabilities accounted for 58% of the gross external debt. The share of long-term debt claims formed 38% of total debt claims.

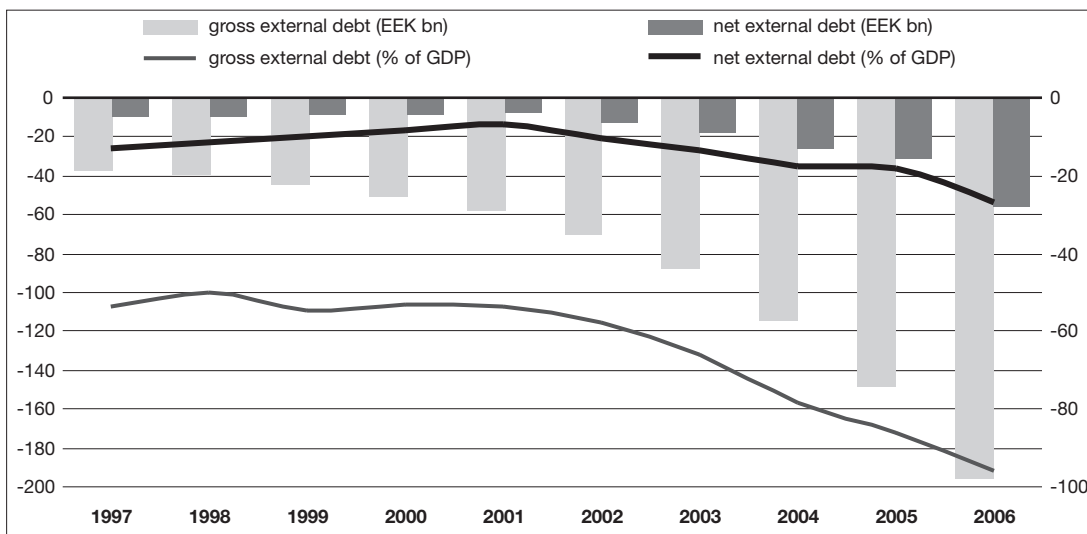


Figure 24. Estonia's gross and net external debt

Table 43. External debt (EEK m)

	31/12/2005	%	31/12/2006	%
LIABILITIES				
I. General government	3,928.2	2.6	4,713.4	2.4
Short-term		0.0		
Long-term	3,928.2	2.6	4,713.4	2.4
II. Monetary authorities (NCB)	48.4	0.0	445.9	0.2
Short-term	48.4	0.0	445.9	0.2
Long-term		0.0		0.0
III. Credit institutions	82,529.9	55.5	101,433.6	51.8
Short-term	38,512.5	25.9	47,668.0	24.3
Long-term	44,017.4	29.6	53,765.6	27.4
IV. Other sectors	38,261.6	25.7	53,573.5	27.3
Short-term	12,967.5	8.7	19,632.7	10.0
Long-term	25,294.1	17.0	33,940.7	17.3
V. Direct investment: intercompany lending	23,986.7	16.1	35,827.0	18.3
GROSS EXTERNAL DEBT	148,754.8	100.0	195,993.3	100.0
ASSETS				
I. General government	12,995.7	11.0	18,194.1	12.9
Short-term	7,902.4	6.7	4,342.7	3.1
Long-term	5,093.3	4.3	13,851.4	9.8
II. Monetary authorities (NCB)	25,735.6	21.8	33,079.8	23.5
Short-term	20,046.9	17.0	24,123.5	17.1
Long-term	5,688.7	4.8	8,956.4	6.4
III. Credit institutions	36,254.8	30.7	31,148.9	22.1
Short-term	21,322.0	18.1	22,445.7	16.0
Long-term	14,932.8	12.7	8,703.3	6.2
IV. Other sectors	26,637.1	22.6	34,628.2	24.6
Short-term	16,165.8	13.7	22,016.9	15.6
Long-term	10,471.3	8.9	12,611.3	9.0
V. Direct investment: intercompany lending	16,329.8	13.8	23,658.8	16.8
TOTAL ASSETS	117,952.9	100.0	140,709.9	100.0
NET EXTERNAL DEBT (assets less liabilities)				
I. General government	9,067.5		13,480.7	
Short-term	7,902.4		4,342.7	
Long-term	1,165.1		9,138.0	
II. Monetary authorities (NCB)	25,687.2		32,634.0	
Short-term	19,998.5		23,677.6	
Long-term	5,688.7		8,956.4	
III. Credit institutions	-46,275.1		-70,284.7	
Short-term	-17,190.5		-25,222.4	
Long-term	-29,084.6		-45,062.3	
IV. Other sectors	-11,624.5		-18,945.3	
Short-term	3,198.3		2,384.2	
Long-term	-14,822.8		-21,329.5	
V. Direct investment: intercompany lending	-7,656.9		-12,168.2	
TOTAL NET EXTERNAL DEBT	-30,801.8		-55,283.5	